LEGISLATIVE

RESEARCH COMMISSION

INTERSTATE BANKING

REPORT TO THE
1989 GENERAL ASSEMBLY
OF NORTH CAROLINA
1989 SESSION

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STATE OF NORTH CAROLINA

LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH 27611

December 14, 1988

TO THE MEMBERS OF THE 1989 GENERAL ASSEMBLY:

The Legislative Research Commission herewith submits to you for your consideration its final report on interstate banking. The report was prepared by the Legislative Research Commission's Committee on Interstate Banking pursuant to Section 2.1 of Chapter 873 of the 1987 Session Laws.

Respectfully submitted,

Liston B. Ramsey

J. J. (Monk) Harrington

Cochairmen

Legislative Research Commission

1987-1988

LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is a general purpose study group. The Commission is cochaired by the Speaker of the House and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

At the direction of the 1987 General Assembly, the Legislative Research Commission has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Cochairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Cochairs, one from each house of the General Assembly, were designated for each committee.

The study of interstate banking was authorized by Section 2.1 of Chapter 873 of the 1987 Session Laws, 1987 Session. That act states that the Commission may consider House Bill 1924 in determining the nature, scope and aspects of the study. Section 3 of House Bill 1924 reads in part: "[t]he Commission shall study the impact that regional interstate banking has had on North Carolina's communities, firms and people." The relevant portions of Chapter 873 and House Bill 1924 are included in Appendix A beginning on page 21. The Legislative Research Commission grouped this

study in its economic development area under the direction of Senator A. D. Guy. The Committee was chaired by Senator A. D. Guy and Representative David A. Diamont. The full membership of the Committee is listed in Appendix B, page 24 of this report. The list of those mailed notices of the meeting is contained as Appendix C, page 25. A committee notebook containing the committee minutes and all information presented to the Committee is filed in the Legislative Library.

COMMITTEE PROCEEDINGS

March 16, 1988

At its first meeting, the Committee reviewed Chapter 873 of the 1987 Session Laws and House Bill 1924 which authorize the study of reciprocal interstate banking. The staff presented to the Committee a review of the recent history of interstate financial institutions legislation in North Carolina and specifically addressed the following legislation: N. C. Regional Reciprocal Banking Act (Interstate Banking Act), Bank Holding Company Act of 1984 (Bank Holding Company Act), N. C. Regional Reciprocal Savings and Loan Act. The staff review of the legislation and amendments through the end of the 1988 Session of the General Assembly is attached as Appendix D, page 27. The first three acts listed above with 1988 amendments are contained in Appendix E, page 30.

The first segment of the meeting addressed the administration of the Interstate Banking and Bank Holding Company Acts, their strengths and weaknesses with suggestions for improvement, and interstate banking's effect in North Carolina.

Mr. Hal Lingerfeld, Deputy Banking Commissioner, delivered a statement from William T. Graham, Commissioner of Banks, on the effects of interstate banking on:

(1) Statewide distribution of credit and its impact on various sectors of our state.

(2) Cost and Availability of other financial services.

(3) Pricing of Financial services.

(4) Employment.

(5) Level of competition between financial institutions in the State.

(6) Financial product deregulation on the insurance. real estate. securities. and export industries.

A copy of Commissioner Graham's statement. paper relating the experience of his office in administering the Interstate Banking Act and the Bank Holding Company Act. and a list of bank holding companies registered with the Office of the Commissioner of Banks as of December 31. 1987. are included in this report as Appendix F. page 44.

Both Mr. Lingerfeld and Mr. L. McNeil Chestnut. General Counsel to the Banking Commission. responded to members' questions.

Mr. Chestnut related Commissioner Graham's interest in having some discretion in allowing an out-of-state bank to come in to buy an existing North Carolina bank when it would be beneficial to the public if the five-year rule could not be altogether eliminated.

Mr. Lingerfeld said that competition within the State is very keen. Many new banks have been chartered. but because there has not been an out-of-state purchase. there is no measurable way of gauging the effects of interstate banking.

Mr. Al Fuqua. representing the North Carolina Bankers Association. stressed the appropriateness of this Committee's studying where the State has been. where it is presently. and where it is likely to go in future years on the issue of interstate banking. He confirmed that the interstate banking laws which had been adopted by previous legislatures had improved the banking industry.

Mr. Thomas P. Rideout. President-elect of the American Bankers Association and Vice-chairman of First Union Bank of North Carolina. spoke to the Committee. He said that North Carolina's General Assembly made the right decision in allowing interstate banking and that decision puts "us in the enviable position of being able to

exploit the inevitable integration, not only of national financial power, but international financial power." He elaborated that some form of nationwide banking will arrive in the 1990's, but that there does not presently seem to be a momentum for putting a nationwide trigger in North Carolina. He encouraged adding the state of Texas to the region so as not to restrain future growth.

Mr. Rideout related that across the country people are migrating to regional service centers for education and employment. Therefore, the banking industry seems to be growing and increasing business more in communities in these areas rather than others. The banking industry is working to encourage economic development in all areas.

Mr. George King, Administrator of the Savings and Loan Division of the N. C. Department of Commerce, said that the Interstate Banking Act has had an intangible effect on thrift institutions causing them to refocus on their home ground. He related that there has been no acquisition of out-of-state savings and loan institutions by North Carolina thrifts and no acquisition of North Carolina thrifts by out-of-state entities.

Mr. Paul Stock, Executive Vice President and Counsel of the N. C. League of Savings Institutions, informed the Committee that there was a lack of response from his members when he surveyed them on the issues being discussed at this meeting. There has been no interstate savings and loan activity, but our Interstate Savings and Loan Act allows that flexibility. The size of the institutions is partly responsible for this inactivity. He related that there is one institution in North Carolina which is larger than one billion dollars in size; the bulk of the 137 savings and loans are small financial institutions having a couple of thousand mortgage loans, some less than that.

Ms. Margot Saunders (formerly Ms. Margot Roten). Consumer Attorney with North Carolina Legal Services Resource Center. Inc.. spoke concerning the effects interstate banking has had on the low income people of North Carolina. Ms. Saunders indicated problems for low income individuals concerning affordability of bank accounts and availability of home mortgage loans and problems of availability of small business financing in this state "may be caused or worsened by interstate banking." She said that only the General Assembly "can compel banks taking deposits from North Carolina citizens to respond to the needs of those citizens." Ms. Saunders suggested the following remedies to correct problems which the Committee may uncover:

(1) Disclosure requirements to set forth the true cost of services provided by banks: the actual interest income on deposit accounts and the potential costs of consumer accounts: and the distribution of credit by geographic area and borrower type.

(2) A more precise legislative definition of the "convenience and needs" language in North Carolina banking law and broad application of those convenience and needs requirements.

(3) Incentives and disincentives for financial institutions receiving deposits and managing investments for public bodies.

(4) Expanded and clarified regulatory powers and duties for State officials.

(5) State funding of a secondary market for community reinvestment loans encouraging banks to make. for example. loans to small businesses not previously cost-justified.

Ms. Saunders' statement is contained in Appendix G. page 53.

Dr. Robert A. Eisenbeis. Associate Dean for Research. Graduate School of Business Administration. University of North Carolina at Chapel Hill made a presentation to the Committee. A copy of his remarks is included as Appendix H. page 57. of this report. He indicated that interstate banking has resulted in a competitive banking system including lowering of prices. efficient allocation of credit and a safe and sound banking system. He believes that had North Carolina not passed interstate banking. the results would have been a lesser role for traditional banking organizations and a weaker banking system. He indicated that the information requested in House Bill 1924 is not available. Professor Eisenbeis said that attempting to allocate credit and allocate services by controlling price is inefficient. does not usually target the people you want. and does not work. He has found this to be true with deposit rate ceilings. He feels that a ceiling on credit card rates could be effective only if the ceiling is lower than the current market rate.

Dr. Nicholas Didow. Professor. Graduate School of Business Administration. University of North Carolina at Chapel Hill. acknowledged that it is very difficult to sort out the effects of interstate banking legislation on the State financial services industry but said that sound public policy dictates that the Committee use its best efforts to provide that evaluation. Professor Didow recounted that he saw no lessening in the price of financial services offered by "interstate" banks but instead saw an increase in those prices. His remarks are attached as Appendix I. page 69.

The Committee instructed staff to collect information on the following:

(1) Conducting an outside study.

(2) Bank loan loss ratio reserve from 1983 through 1987 and where we rank nationally.

(3) Gain of jobs in banking industry since interstate banking went into effect in North Carolina from various sources.

November 16, 1988

The Committee held its second meeting on November 16, 1988. The agenda of that meeting was directed primarily at determining credit availability in North Carolina. At the outset of the meeting Cochairman David Diamont recognized Mr. Sullivan, the Committee Counsel, who reviewed materials he had sent earlier to committee members.

Bank Loan Loss Ratios

In response to a request of Representative Fletcher for information relating to the loan loss ratios of North Carolina State chartered and federally chartered banks, the North Carolina Commissioner of Banks supplied a chart showing, for year's end 1987 versus year's end 1984, ratios of non-performing loans to total assets, non-performing loans to total loans, net charge-offs to total loans for the average North Carolina State-chartered and federally-chartered banks selected North Carolina banks, averages for the Southeastern States and for the nation. The loan loss ratios indicated that North Carolina banks averaged significantly fewer losses from loans than either those in the Southeast and in the Nation, and that North Carolina chartered banks fared better than national banks operating in North Carolina with regard to losses from loans during that period. The Commissioner's letter and chart is contained in Appendix J, page 83 of this report.

Banking Employment Figures

Commissioner Graham also sent a letter to the Committee's Counsel regarding banking employment figures in North Carolina. His letter explained that he did not object to Mr. Tom Rideout's statement at the first meeting that there had been an increase of almost 7,000 banking employees in the State from 1983 to 1987. The Commissioner conceded that interstate banking has resulted in some increases in banking employment but stated that he agreed with Professor Eisenbeis' statement given at the same meeting urging the Committee to view with skepticism any claiming to identify the effects of changes in North Carolina banking law because of "a host of other financial market changes occurring at about that time." The Committee's staff presented statistics showing an increase of either 9 or 11%, using Employment Security Commission or FDIC figures, respectively, in banking employment in North Carolina from 1985, the effective date of the Interstate Banking Act, to 1987. The banking employment increase compared with a 6% increase in employment in the State generally for the same period. Commissioner Graham's letter and the staff's memo on the employment question is contained in Appendix K, page 86 of this report.

Number of Financial Institutions
and Their Locations

The staff presented graphs, using figures obtained from the Commissioner of Banks for banks, the Administrator of the Savings and Loan Division for savings and loans, and the President of the Credit Union League, showing the number of each of these institutions and of their locations (counting the main office as a location also) by type of institution and whether state- or federally-

chartered and the total of each type and the totals of all institutions and branches for the years 1980 through 1986. Copies of those graphs are attached in Appendix L. page 90 of this report.

The graphs show that although the absolute number of state- and federally-chartered banks located in North Carolina declined during that period from 80 to 65 or 18.75%. the number of banking locations (main offices and branches) increased from 1822 to 1966 or 7.9%. For the same period. the number of all savings and loans in the State fell from 197 to 141 or about 28.4 percent. and the number of savings and loans locations rose from 522 to 649 or approximately 24.3 percent. Credit unions in North Carolina during the same time decreased from 358 to 292 or 18.4%: and the number of credit union locations remained the same at 415. The total number of financial institutions in North Carolina (state and federally-chartered banks. savings and loans. and credit unions) have decreased from 635 to 498 or about 21.6 percent: while the locations of these institutions have risen from 2759 to 3030 or nearly 9.8%.

In response to an inquiry on recent bank location closings. the Commissioner of Banks surveyed the changes in number of banks and of their locations during the 1988 calendar year. The survey indicated that the total number of State-chartered banks (56) and national (15) banks has remained the same during the period from January 1 to September 30. 1988. There have been 47 state-chartered bank locations opened and 10 closed. while the corresponding number of branches of national banks openings is 24 and closings is 22. Thus. there has been a net increase of 39 branches in the State

during that period or an increase over the last year of 2 percent (on an annualized basis assuming a proportional increase for the last three months of 1988, the total number would be 52 or an increase of 2.7 percent). When those figures are added to the increase in banking locations from 1983 to 1987, there has been a net increase in branch locations of 10.0% from 1983 to September 30, 1988. The Commissioner's letter containing the results of his survey is contained in Appendix M, page 98 of this report.

Administration of Interstate Banking Act

Finally, the Committee Counsel reported that Commissioner Graham had been asked to present the experience of his office in administering the Interstate Banking Act in connection with the application of RHNB Corporation, a South Carolina bank holding company, to acquire MetroBank, N.A. of Charlotte. The Commissioner and his most senior aides could not attend the Committee's second meeting because of a meeting of the State Banking Commission already scheduled in Asheville for the same day. The Commissioner suggested in written comments that the Committee recommend legislation which would extend confidentiality to documents gathered during an interstate application, require publication of notice of an application for acquisition under the Interstate Banking Act, and amend the North Carolina Bank Holding Company Act of 1984 to extend the registration requirement to bank holding companies which "indirectly" control a nonbank subsidiary in North Carolina. The Committee Counsel said that the Commissioner said that he had published notice of RHNB Corporation's application without legislative direction to do so. Representatives of the North Carolina Bankers Association

(NCBA) said that they did not have sufficient time to study these proposals and asked to be permitted to present their views in writing. The Commissioner's written statement together with his proposed legislative changes and the NCBA's statement are attached as Appendix N, page 100 of this report.

Availability of Capital and of Data on that Availability

Mr. Tom McClure, Associate Director for Economic Development of the Center for Improving Mountain Living at Western Carolina University, was recognized to speak to availability and need for commercial capital in Western North Carolina. He stated that, he believed, that the interstate banking has exacerbated the problem of obtaining financing for starting and expanding small and medium sized businesses in his area. He posited three factors as explanations for the failure of interstate banking to result in improved access to credit for small businesses:

1. Smaller loans are not significantly less expensive to transact than larger loans.
2. Banks gaining access to rapidly growing urban markets find it easier to turn from rural markets which might be less dynamic and more difficult to analyze, and
3. Loan decisions centralized in the home office in the larger bank lead to delays in the decision.

Mr. McClure gave several examples of difficulty in obtaining commercial credit with which he was familiar and which he believed leads to stifling of development in Western North Carolina. He suggested to the Committee that disclosure by banks of lending information would enable development of

"realistic interventions to address both perceived and real gaps in the capital market." Mr. McClure's testimony is attached in Appendix O. page 107 of the report.

Ms. Katherine McKee. Associate Director of the Center for Community Self-Help in Durham. spoke to unmet financing needs of commercial ventures and potential home owners. She said that she believes that significant gaps exist in the availability of credit for business development and housing. more information is needed about the specific nature and scale of bank and thrift lending.and the Committee ought to consider how state officials might be asked to analyze and use the information obtained from disclosure of lending. Ms. McKee's statement is attached in Appendix P. page 122.

Mr. Tom Schlesinger. Director of the Southern Finance Project in Charlotte. was recognized to speak to the availability of data on the effect of interstate banking and credit needs within the State. He reiterated the earlier speakers' positions that there are gaps remaining unfilled in the State's financial marketplace despite the arrival of interstate banking. He said that a gap also exists in the information needed for citizens. business owners. state officials and others to have a complete understanding of the workings of the State's economy. Mr. Schlesinger stated that some of the information exists for example on Small Business Administration loans and on mortgage loans recorded in compliance with the federal Home Mortgage Disclosure Act but it is limited and spotty. He urged several courses of action. including the following:

1. Encourage financial institutions to make public regulatory agencies' assessments of their condition and enforcement actions taken on the basis of those assessments.
2. Provide a standardized accounting of the distribution of mortgage, consumer, commercial, and agricultural credit by geographic area and borrower type.
3. Amend the Uniform Commercial Code to require debtors and secured parties to record the dollar amount of indebtedness incurred and the value of collateralized assets.

Mr. Schlesinger's statement is contained in Appendix Q, page 136.

Mr. Hugh Stevens, General Counsel of the North Carolina Press Association, was invited to speak to the Committee on the issue of the need for information on credit formulation and distribution. He was unable to attend but submitted a statement attached as Appendix R, page 152.

Representatives of the North Carolina Bankers Association were asked if they wished to respond to the statements made regarding credit availability and need in North Carolina and the need for information regarding credit distribution. They asked to be allowed to submit a statement in this regard, which is attached as Appendix S, page 156.

NCNB Corporation's Acquisition of First Republic Bank of Texas

Mr. G. Patrick Phillips, Executive Vice President of NCNB of North Carolina, explained to the Committee the legal basis under which the NCNB Corporation acquired an interest in First Republic Bank Corporation of Texas. His statement is attached as Appendix T, page 163.

At the conclusion of the meeting, the Committee discussed whether it should issue a report and, if so, what the report would contain. The Committee instructed the staff to prepare a draft report incorporating in its tentative findings and recommendations the legislative proposals of the Commissioner of Banks as well as the findings and recommendations on the subject of availability and information related thereto proposed by Ms. Margot Saunders, of the North Carolina Legal Services Resource Center, Inc.

December 2, 1988

At its third and final meeting the Committee reviewed the draft report and made changes it felt appropriate. The Commissioner of Banks proposed legislation to allow the payment of commissions on initial bank stock offerings and indicated that he would later propose full interstate banking in North Carolina. His letter is attached in Appendix U, page 166. The amended report was then approved by the Committee for submission to the Legislative Research Commission.

FINDINGS AND RECOMMENDATIONS

The Committee on Interstate Banking makes the following findings and recommendations:

A. Availability of Credit and Information on that Availability

The Committee on Interstate Banking finds:

1. A significant number of diverse organizations and individuals around the State believe that there is a serious lack of affordable credit and deposit services available to small businesses. rural communities. minorities. and low and moderate income people and communities in North Carolina.
2. Some of the State's financial institutions believe that interstate banking has proven profitable for North Carolina's banking industry and beneficial to the State economy.
3. There is no conclusive evidence that interstate banking has either improved or worsened the problem associated with access to. and the cost and quality of. banking services.
4. There is a serious lack of information on which to base an objective conclusion about the extent of access. cost and quality problems associated with banking services in North Carolina. and about the relationship of interstate banking to those problems.
5. Major changes have been occurring in the financial services sector. and will continue to occur. Nationwide banking. a distinct possibility in the near future. will accelerate and amplify these changes. The possibility of nationwide interstate banking makes it

particularly important for the North Carolina General Assembly to understand the relationship between the problems associated with banking services and the continued geographic expansion of banking.

The Committee recommends to the 1989 Session of the General Assembly that:

1. The 1989 General Assembly search for and create ways to determine the extent of problems of access to banking services experienced by small businesses, rural communities, minorities, and low and moderate income people and communities in North Carolina.
2. To the extent that there are problems with access to banking services in North Carolina, the General Assembly should create methods to ameliorate the problems.
3. The Legislative Research Commission be authorized to continue the study of interstate banking.

B. Regional Reciprocal Interstate Banking Act

The Committee on Interstate Banking finds that:

1. General Statute (G.S.) 53-99(b) currently provides, among other matters, for confidentiality of certain records gathered by the Commissioner of Banks compiled in examining, auditing and investigating the operations of a bank as well as records of information and reports submitted by banks to federal regulatory authorities, if these records would be confidential under federal law.

2. In addition to federal regulatory information, the Banking Commission also requests biographical data and financial statement on all of the current or proposed officers or directors of the to-be-acquired bank or bank holding company.

3. The biographical data is personal and sensitive and not necessary to be published in order to process the application.

4. Although this State's banking law generally provides for publication of notice of matters affecting the general public, notice of applications for acquisitions under the Interstate Banking Act are not presently required to be published.

The Committee on Interstate Banking, therefore, recommends that:

1. G.S. 53-99(b) be amended to provide for confidentiality of records compiled or received in connection with an application under the Interstate Banking Act.

2. G.S. 53-211 be amended to require publication of notice of applications for acquisitions under the Interstate Banking Act.

The Committee's legislative proposal containing these amendments is found in Appendix V, page 172.

C. North Carolina Bank Holding Company Act of 1984

The Committee finds that:

1. Under the NCBHC, a bank holding company (BHC) owning a North Carolina federally- or State-chartered bank or acquiring control over a nonbank subsidiary with offices in this State must register with the Commissioner.

2. A non-resident bank which is a wholly-owned subsidiary of a bank holding company could purchase a nonbank subsidiary having an office in North Carolina and neither that bank nor its parent BHC would be required to register under the NCBHC.

The Committee on Interstate Banking recommends that the General Assembly amend G.S. 53-227 to require BHC's acquiring control over a nonbank subsidiary register under the NCBHC. The Committee's legislative proposal is contained in Appendix W. page 177.

D. Banking Statutes

The Committee on Interstate Banking finds:

1. Community banks concentrate delivery of their banking services and products in the communities in which they are organized.
2. Every reasonable step should be taken to foster the growth and development of community banks.
3. G.S. 53-6. which prohibits a bank from paying commissions on the sale of its organizational stock. is an impediment to the formation of community banks.
4. Twenty-eight of 42 states responding to the North Carolina Banking Commissioner's survey of other states' bank regulators take the position that commissions on the sale of organizational stock are permitted.

The Committee recommends to the 1989 Session of the General Assembly that. in order to promote development of community banks. G.S. 53-6 be

amended to repeal the provision prohibiting payment of commissions on initial offerings of bank stock. The Committee's legislative proposal containing the amendment is found in Appendix X. page 178.

APPENDIX A

GENERAL ASSEMBLY OF NORTH CAROLINA
1987 SESSION
RATIFIED BILL

CHAPTER 873
HOUSE BILL 1

AN ACT TO AUTHORIZE STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, TO CREATE AND CONTINUE VARIOUS COMMITTEES AND COMMISSIONS, TO MAKE APPROPRIATIONS THEREFOR, AND TO AMEND STATUTORY LAW.

The General Assembly of North Carolina enacts:

PART I. TITLE

Section 1. This act shall be known as "The Study Commissions and Committees Act of 1987."

. . .

PART II.-----LEGISLATIVE RESEARCH COMMISSION

Sec. 2.1. The Legislative Research Commission may study the topics listed below. Listed with each topic is the 1987 bill or resolution that originally proposed the issue or study and the name of the sponsor. The Commission may consider the original bill or resolution in determining the nature, scope and aspects of the study. The topics are:

. . .

(47F) Interstate Banking (H.B. 1924-Diamont).

. . .

Sec. 2.6. Reporting Dates. For each of the topics the Legislative Research Commission decides to study under this act or pursuant to G.S. 120-30.17(1), the Commission may report its findings, together with any recommended legislation to the 1989 General Assembly.

Sec. 2.7. Bills and Resolution References. The listing of the original bill or resolution in this Part is for reference purposes only and shall not be deemed to have incorporated by reference any of the substantive provisions contained in the original bill or resolution.

. . .

Sec. 31. This act is effective on July 1, 1987.

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1987

H 1

HOUSE BILL 1924

Short Title: Interstate Banking Study. (Public)

Sponsors: Representatives Diamont: Fletcher. Bowman.

Referred to: Appropriations.

May 27. 1987

A BILL TO BE ENTITLED

AN ACT TO CREATE THE INTERSTATE BANKING STUDY COMMISSION.

Whereas. the General Assembly in 1983 passed the North Carolina Regional Reciprocal Banking Act which allows regional bank holding companies to acquire North Carolina banks: and

Whereas. the Legislature is currently considering legislation to include Texas in the North Carolina Interstate Banking Region: and

Whereas. the Texas economy is in a seriously depressed state and its problems mirrored in the problems of Texas banks: and

Whereas. the enormous changes occurring in the financial industry brought about by deregulation. technological innovation. and international economic upheavals. have produced larger and fewer institutions. and have shifted credit-making decisions away from local communities: Now. therefore.

The General Assembly of North Carolina enacts:

Section 1. The North Carolina Interstate Banking Study Commission is hereby created.

. . .

Sec. 3. The Commission shall study the impact that regional interstate banking has had on North Carolina's communities, firms and people. The scope of the study shall include, but not be limited to:

(a) The statewide distribution of credit and its impacts on traditional industries, small businesses, depressed counties, agriculture, internationally traded sectors of the economy, minority and women-owned businesses; and housing markets;

(b) The cost and availability of other financial services including deposit accounts;

(c) The pricing of financial services;

(d) The direct and indirect employment effects of regional interstate banking;

(e) The level of competition between financial institutions in the State; and

(f) The effects of financial product deregulation on the insurance, real estate, securities and export industries.

Sec. 4. The Commission shall submit a final report of its findings and recommendations to the General Assembly on or before the first day of the 1989 Session of the General Assembly by filing the report with the President of the Senate and the Speaker of the House of Representatives. Upon filing its final report, the Commission shall terminate. The report of the Commission shall summarize the information obtained in the course of its inquiry, set forth any findings and conclusions, and recommend such administrative actions or legislative actions that may be necessary. If legislation is recommended, the Commission shall prepare and submit with its report appropriate bills.

. . .

Sec. 8. This act is effective upon ratification.

APPENDIX B

MEMBERSHIP OF LRC COMMITTEE ON INTERSTATE BANKING

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<u>APPENDIX C</u>

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APPENDIX D

Review of Legislative History of Interstate Financial Institutions Legislation in North Carolina

Prepared by Terrence D. Sullivan. Committee Counsel for Presentation at LRC's Committee on Interstate Banking Meeting on March 16. 1988*

Introduction

In 1982 the Southern Regional Banking Committee of the Southern Regional Growth Policies Board recommended that the 12 SRGP states enact legislation to permit the entry of out-of-state bank holding companies but that this entry be limited to the Southern Region for a specific time with provision for national agreements beyond the limited time.

In making this suggestion the SRGP was aware of seven states which had already availed themselves of a significant provision of Federal law--the Douglas amendment. That law-- Section 3(d) [12 U.S.C. 1842 (d)] of the Bank Holding Company Act of 1956-- prohibits a bank holding company from acquiring a bank outside the bank holding company's home state unless that acquisition is specifically allowed by the statutes of the state of the to-be-acquired bank.

Three New England states established a reciprocal arrangement by which one state's BHC could acquire the BHC or bank in a sister state on a reciprocal basis in that region. Florida quickly followed suit in taking advantage of the Douglas amendment proviso when it in that same year proposed similar reciprocity among the states in the South.

During the 1983 Session of the General Assembly. Senator James H. Edwards. introduced Senate Joint Resolution 381. directing the Legislative Research Commission to study the system of "present regulations and tax levies applicable to commercial banks. savings and loan associations and credit unions." In March of 1984. the North Carolina Bankers Association presented to the LRC Committee the draft of what was to become the North Carolina Regional Reciprocal Interstate Banking Act. The predecessor-in-name of the North Carolina League of Savings Institutions proposed that similar legislation be adopted for the regional reciprocal acquisition of S&L's and their holding companies. At the same time and to the same committee. the then-Commissioner of Banks. Mr. Jim Currie. presented legislation to require the registration and examination of bank holding companies in North Carolina. The Legislative Research Commission in transmitting the report of its committee recommended the proposed Regional Reciprocal Interstate Banking Act and similar legislation for S&L's to the 1984 Short Session which like the 1988 Session is a limited one. The LRC took no action on the bank holding company proposal.

The 1984 Session of the General Assembly passed as one bill-- the Interstate Banking proposal. effective on January 1. 1985: and a proposal requiring the registration of bank holding companies in North Carolina.

Brief Analysis of 1984 Legislation

The **North Carolina Regional Reciprocal Banking Act** (Article 17 of Chapter 53 of the General Statutes). in brief. allows a bank holding company (BHC) in the defined region.upon the approval of the Commissioner of Banks. to acquire North Carolina banks and BHC's. The "Region" consists the following jurisdictions besides. North Carolina -- Alabama. Arkansas. Florida. Georgia. Kentucky. Louisiana. Maryland. Mississippi. South Carolina. Tennessee. Virginia. West Virginia and the District of Columbia. On application for initial entry into North Carolina. the Commissioner must determine that:

1. the laws of the state in which the regional has its principal place of business generally permits all N.C. BHC's to make similar acquisitions (i.e. the reciprocity test):
2. that the laws of the state in which the regional has its principal place of business would permit the to be-acquired N.C. bank or BHC to acquire the regional (i.e. the mirror-image test):
3. the N.C. bank has been in existence and continuously operating for five years or in the case of a N.C. BHC. all of its bank subsidiaries have a similar status:
4. that the Commissioner make the acquisition subject to the same criteria that would be applied to a N.C. entity make an acquisition in the state of the regional's principal place of business but which would not apply to that state's BHC's.where all of their subsidiaries are located in that state (i.e. only that criteria applicable to those BHC's outside the jurisdiction).

On subsequent applications for acquisition in North Carolina. the Commissioner is to approve those acquisitions if the last two conditions listed under initial acquisitions exist-- i.e. those relating to term of existence of the to-be-acquired N.C. entity and subjecting the acquisition to any criteria solely applicable to interstate acquisitions. The Act. among other matters. contains provisions allowing the Commissioner to require periodic reports of BHC's and granting enforcement powers including divestiture of N.C. entities where the BHC is no longer a regional.

The **North Carolina Bank Holding Company Act of 1984** requires registration of BHC's in North Carolina. prohibits nonbank banks. and gives to the Commissioner cease and desist authority over BHC' and nonbank banks operating in violation of N.C. banking laws. Included in the bank holding company legislation was a prohibition for any BHC or other company to own a bank that does not both offer checking accounts and make commercial loans. To be considered a "bank" for the Federal Bank Holding Company Act. an entity must be engaged in making commercial loans and accept demand deposits. By stripping away certain key powers. entities were enable to escape certain federal regulations. for example. on geographical expansion and underwriting securities.

The 1984 Session of the General Assembly also enacted the **North Carolina Regional Reciprocal Savings and Loan Acquisition Act**. which tracks to a great extent the statutory scheme in the Interstate Banking Act.

Brief Analysis of Amendments to 1984 Legislation

The **Bank Holding Company Act** was amended in 1985 to make various technical amendments. The 1985 legislation required that the Commissioner of Banks evaluate a regional BHC's proposed acquisition under the same criteria by which a N.C. BHC seeking such an acquisition in the regional BHC's home state (principal place of business) would be evaluated and that if the regional BHC's "home state's" criteria are no more stringent than N.C.'s existing criteria. the Commissioner must find that the proposed acquisition would be financially sound for both parties and that the acquiring bank and the proposed officers of the new bank to be formed are qualified to operate a North Carolina bank.

The **Interstate S&L Act** has not been amended since its ratification.

Since it became effective in 1985. the **Interstate Banking Act** has been amended twice. Once. in 1985. to insert the Banking Commission. itself. as an interim level for an appeal from an adverse decision of the Commissioner. In 1986. the Act was amended to remove a restriction against foreign control of regional bank holding companies to avoid a constitutional challenge which might have invalidated the entire act.

The 1987 General Assembly during its 1988 session amended the Interstate Banking Act twice. The first Act. Chapter 898. deleted the requirement in initial acquisitions that the state containing the regional BHC's principal place of business allow all N.C. BHC's to make acquisitions there and to eliminate on subsequent acquisitions by a regional already in N.C. of N.C. banks or BHC's that they be in existence and continuously operating for more than 5 years. The second Act. Chapter 899. added Texas to the previously designated 13 other Southeastern jurisdictions allowed to acquire North Carolina banks and bank holding companies pursuant to the Interstate Banking Act.

* Updated to take into account actions of the 1988 Session of the General Assembly.

APPENDIX E

ARTICLE 17.
North Carolina Regional Reciprocal Banking Act.

§53-209. Title.

This Article shall be known and may be cited as the North Carolina Regional Reciprocal Banking Act. (1983 (Reg. Sess.. 1984). c. 1113. s. 1.)

§53-210. Definitions.

Notwithstanding any other section of this Chapter. for the purposes of this Article:

(1) "Acquire" means:

a. The merger or consolidation of one bank holding company with another bank holding company:

b. The acquisition by a bank holding company of direct or indirect ownership or control of voting shares of another bank holding company or a bank. if. after such acquisition. the bank holding company making the acquisition will directly or indirectly own or control more than five percent (5%) of any class of voting shares of the other bank holding company or the bank:

c. The direct or indirect acquisition by a bank holding company of all or substantially all of the assets of another bank holding company or of a bank: or

d. Any other action that would result in direct or indirect control by a bank holding company of another bank holding company or a bank.

(2) "Bank" means any "insured bank" as such term is defined in Section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)) or any institution eligible to become an "insured bank" as such term is defined therein. which. in either event.

a. Accepts deposits that the depositor has a legal right to withdraw on demand: and

b. Engages in the business of making commercial loans.

(3) "Banking office" means the principal office of a bank. any branch of a bank. any teller's window of a bank or any other office at which a bank accepts deposits: Provided. however. that "banking office" shall not mean:

a. Unmanned automatic teller machines. point of sale terminals or other similar unmanned electronic banking facilities at which deposits may be accepted:

b. Offices located outside the United States: or

c. Loan production offices. representative offices or other offices at which deposits are not accepted.

(4) "Bank holding company" has the meaning set forth in Section 2(a) (1) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1841(a)(1)).

(5) "Commissioner" means the Commissioner of Banks of this State.

(6) "Control" has the meaning set forth in Section 2(a) (2) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1841(a)(2)).

(7) "Deposits" means all demand. time. and savings deposits. without regard to the location of the depositor: Provided. however. that "deposits" shall not include any deposits by banks. For purposes of this Article. determination of deposits shall be made with reference to regulatory reports of condition or similar reports made by or to state and federal regulatory authorities.

a. Is organized under the laws of this State or of the United States: and
b. Has banking offices located only in this State.
(9) "North Carolina bank holding company" means a bank holding company:
a. That has its principal place of business in this State:
b. The North Carolina bank and regional bank subsidiaries of which hold more than eighty percent (80%) of the total deposits held by all of its bank subsidiaries. other than bank subsidiaries controlled by it in accordance with G.S. 53-212 of this Article: and
c. That is not controlled by a bank holding company other than a North Carolina bank holding company.
(10) "Principal place of business" of a bank holding company means the state in which the total deposits held by the banking offices of the bank holding company's bank subsidiaries are the largest.
(11) "Region" means the states of Alabama. Arkansas. Florida. Georgia. Kentucky. Louisiana. Maryland. Mississippi. North Carolina. South Carolina. Tennessee. Texas. Virginia and West Virginia. and the District of Columbia.
(12) "Regional bank" means a bank that:
a. Is organized under the laws of the United States or of one of the states in the region other than North Carolina: and
b. Has banking offices located only in states within the region.
(13) "Regional bank holding company" means a bank holding company:
a. That has its principal place of business in a state within the region other than North Carolina:
b. The regional bank and North Carolina bank subsidiaries of which hold more than eighty percent (80%) of the total deposits held by all of its bank subsidiaries. other than bank subsidiaries controlled by it in accordance with G.S 53-212 of this Article: and
c. That is not controlled by a bank holding company other than a regional bank holding company.
d. Repealed by Session Laws 1985 (Reg. Sess.. 1986). c. 862. s. 3.
(14) "State" means any state of the United States or the District of Columbia.
(15) "Subsidiary" has the meaning set forth in Section 2(d) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1841(d)). (1983 (Reg. Sess.. 1984). c. 1113. s. 1: 1985 (Reg. Sess.. 1986). c. 862: 1987 (Reg. Sess.. 1988. c. 899. s.1.)

§53-211. Acquisitions by regional bank holding companies.

(a) A regional bank holding company that does not have a North Carolina bank subsidiary (other than a North Carolina bank subsidiary that was acquired either pursuant to Section 116 or Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m). 1823(f)) or in the regular course of securing or collecting a debt previously contracted in good faith. as provided in Section 3(a) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1842(a))) may acquire a North Carolina bank holding company or a North Carolina bank with the approval of the Commissioner. The regional bank holding company shall submit to the Commissioner an application for approval of such acquisition. which application shall be approved only if:
(1) The Commissioner determines that the laws of the state in which the regional bank holding company making the acquisition has its principal place of business permit

North Carolina bank holding companies to acquire banks and bank holding companies in that state:

(2) The Commissioner determines that the laws of the state in which the regional bank holding company making the acquisition has its principal place of business permit such regional bank holding company to be acquired by the North Carolina bank holding company or North Carolina bank sought to be acquired. For the purposes of this subsection, a North Carolina bank shall be treated as if it were a North Carolina bank holding company:

(3) The Commissioner determines either that the North Carolina bank sought to be acquired has been in existence and continuously operating for more than five years or that all of the bank subsidiaries of the North Carolina bank holding company sought to be acquired have been in existence and continuously operating for more than five years: Provided, that the Commissioner may approve the acquisition by a regional bank holding company of all or substantially all of the shares of a bank organized solely for the purpose of facilitating the acquisition of a bank that has been in existence and continuously operating as a bank for more than five years: and

(4) The Commissioner makes the acquisition subject to any conditions, restrictions, requirements or other limitations that would apply to the acquisition by a North Carolina bank holding company of a bank or bank holding company in the state where the regional bank holding company making the acquisition has its principal place of business but that would not apply to the acquisition of a bank or bank holding company in such state by a bank holding company all the bank subsidiaries of which are located in that state.

(b) (b) A regional bank holding company that has a North Carolina bank subsidiary (other than a North Carolina bank subsidiary that was acquired either pursuant to Section 116 or Section 123 of the Garn-St. Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m), 1823 (f) or in the regular course of securing or collecting a debt previously contracted in good faith, as provided in Section 3(a) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1842(a)) may acquire any North Carolina bank or North Carolina bank holding company with the approval of the Commissioner. The regional bank holding company shall submit to the Commissioner an application for approval of such acquisition, which application shall be approved only if the Commissioner makes the acquisition subject to any conditions, restrictions, requirements or other limitations that would apply to the acquisition by a North Carolina bank holding company of a bank or bank holding company in the State where the regional bank holding company making the acquisition has its principal place of business but that would not apply to the acquisition of a bank or bank holding company in such state by a bank holding company all the bank subsidiaries of which are located in that state.

(c) The Commissioner shall rule on any application submitted under this section not later than 90 days following the date of submission of a complete application. If the Commissioner fails to rule on the application within the requisite 90-day period, the failure to rule shall be deemed a final decision of the Commissioner approving the application. (1983 (Reg. Sess., 1984), c. 1113, s. 1; 1987 (Reg. Sess., 1988), c. 898, ss. 1, 2.)

§53-212. Exceptions.

A North Carolina bank holding company, a North Carolina bank, a regional bank holding company, or a regional bank may acquire or control, and shall not cease to be a North Carolina bank holding company, a North Carolina bank, a regional bank

holding company, or a regional bank, as the case may be, by virtue of its acquisition or control of:

(1) A bank having banking offices in a state not within the region, if such bank has been acquired pursuant to the provisions of Section 116 or Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m), 1823(f));

(2) A bank having banking offices in a state not within the region, if such bank has been acquired in the regular course of securing or collecting a debt previously contracted in good faith, as provided in Section 3(a) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1842(a)), and if the bank or bank holding company divests the securities or assets acquired within two years of the date of acquisition. A North Carolina bank, a North Carolina bank holding company, a regional bank holding company, or a regional bank may retain these interests for up to three additional periods of one year each if the Commissioner determines that the required divestiture would create undue financial difficulties for that bank or bank holding company; or

(3) A bank or corporation organized under the laws of the United States or of any state and operating under Section 25 or Section 25(a) of the Federal Reserve Act as amended (12 U.S.C. 601 or 611-31) or a bank or bank holding company organized under the laws of a foreign country that is principally engaged in business outside the United States and that either has no banking office in the United States or has banking offices in the United States that are engaged only in business activities permissible for a corporation operating under Section 25 or Section 25(a) of the Federal Reserve Act as amended. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-213. Prohibitions.

(a) Except as expressly permitted by federal law, no bank holding company that is not either a North Carolina bank holding company or a regional bank holding company shall acquire a North Carolina bank holding company or a North Carolina bank.

(b) Except as required by federal law, a North Carolina bank holding company or a regional bank holding company that ceases to be a North Carolina bank holding company or a regional bank holding company shall as soon as practicable and, in all events, within one year after such event divest itself of control of all North Carolina bank holding companies and all North Carolina banks: Provided, however, that such divestiture shall not be required if the North Carolina bank holding company or the regional bank holding company ceases to be a North Carolina bank holding company or a regional bank holding company, as the case may be, because of an increase in the deposits held by bank subsidiaries not located within the region and if such increase is not the result of the acquisition of a bank or bank holding company. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-214. Applicable laws, rules and regulations.

(a) Any North Carolina bank that is controlled by a bank holding company that is not a North Carolina bank holding company shall be subject to all laws of this State and all rules and regulations under such laws that are applicable to North Carolina banks that are controlled by North Carolina bank holding companies.

(b) Notwithstanding the provisions of G.S. 53-95, the Commissioner may promulgate rules, including the imposition of a reasonable application and administration fee, to implement and effectuate the provisions of this Article. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-215. Appeal of Commissioner's decision.

Any aggrieved party in a proceeding under G.S. 53-211, G.S. 53-212(2) or G.S. 53-227.1 may, within 30 days after final decision of the Commissioner, appeal his

decision to the State Banking Commission. The State Banking Commission, within 30 days of receipt of the notice of appeal, shall approve, disapprove or modify the Commissioner's decision. Failure of the State Banking Commission to act within 30 days of receipt of notice of appeal shall constitute a final decision of the State Banking Commission approving the decision of the Commissioner. Notwithstanding any other provision of law, any aggrieved party to a decision of the State Banking Commission, within 30 days after final decision of the Commission, may appeal directly to the North Carolina Court of Appeals for judicial review on the record. (1983 (Reg. Sess., 1984), c. 1113, s. 1; 1985, c. 683, s. 3.)

§53-216. Periodic reports; interstate agreements.

The Commissioner may from time to time require reports under oath in such scope and detail as he may reasonably determine of each regional bank holding company subject to this Article for the purpose of assuring continuing compliance with the provisions of this Article.

The Commissioner may enter into cooperative agreements with other bank regulatory authorities for the periodic examination of any regional bank holding company that has a North Carolina bank subsidiary and may accept reports of examination and other records from such authorities in lieu of conducting its own examinations. The Commissioner may enter into joint actions with other bank regulatory authorities having concurrent jurisdiction over any regional bank holding company that has a North Carolina bank subsidiary or may take such actions independently to carry out its responsibilities under this Article and assure compliance with the provisions of this Article and the applicable banking laws of this State. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-217. Enforcement.

The Commissioner shall have the power to enforce the provisions of this Article, including the divestiture requirement of G.S. 53-213(b), through an action in any court of this State or any other state or in any court of the United States, as provided in G.S. 53-94 and G.S. 53-134, for the purpose of obtaining an appropriate remedy for violation of any provision of this Article, including such criminal penalties as are contemplated by G.S. 53-134. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-218. Nonseverability.

It is the purpose of this Article 17 to facilitate orderly development of banking organizations that have banking offices in more than one state within the region. It is not the purpose of this Article to authorize acquisitions of North Carolina bank holding companies or North Carolina banks by bank holding companies that do not have their principal place of business in this State on any basis other than as expressly provided in this Article. Therefore, if any portion of this Article pertaining to the terms and conditions for and limitations upon acquisition of North Carolina bank holding companies and North Carolina banks by bank holding companies that do not have their principal place of business in this State is determined to be invalid for any reason by a final nonappealable order of any North Carolina or federal court of competent jurisdiction, then this entire Article shall be null and void in its entirety and shall be of no further force or effect from the effective date of such order: Provided, however, that any transaction that has been lawfully consummated pursuant to this Article prior to a determination of invalidity shall be unaffected by such determination. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§§53-219 to 53-224. Reserved for future codification purposes.

ARTICLE 18.

Bank Holding Company Act of 1984.

§53-225. Title and scope.

(a) This Article shall be known and may be cited as the North Carolina Bank Holding Company Act of 1984.

(b), (c) Repealed by Session Laws 1985, c. 683, s. 1, effective July 10, 1985.

(d) Except for the provisions of G.S. 53-227.1, nothing in this Article shall be deemed to apply to the registration, examination or supervision of banks or trust companies. (1983 (Reg. Sess., 1984), c. 1113, s. 1; 1985, c. 683, s. 1.)

§53-226. Definitions.

For the purposes of this Article:

(1) "Bank" means any insured bank as the term is defined in Section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(h)), or any institution eligible to become an insured bank as the term is defined therein, which, in either event:

a. Accepts deposits that the depositor has a legal right to withdraw on demand; and

b. Engages in the business of making commercial loans.

(2) "Bank holding company" means any company which has control over any bank.

(3) "Commissioner" means the Commissioner of Banks of this State.

(4) "Company" means a corporation, joint stock company, business trust, partnership, voting trust, association, and any similar organized group of persons, whether incorporated or not, and whether or not organized under the laws of this State or any other state or any territory or possession of the United States or under the laws of the foreign country, territory, colony or possession thereof, other than a corporation all the capital of which is owned by the United States or a corporation which is chartered by the Congress of the United States; "company" includes subsidiary and parent companies.

(5) "Control" means that:

a. Any company directly or indirectly or acting through one or more persons owns, controls, or has power to vote twenty- five per centum (25%) or more of the voting securities of the bank;

b. The company controls in any manner the election of a majority of the directors, managers or trustees of the bank or company; or

c. The Commissioner determines, after notice and opportunity for hearing, that the company directly or indirectly exercises a controlling influence over the management or policies of the bank or company.

(6) "Subsidiary", with respect to a bank holding company, means:

a. Any company twenty-five per centum (25%) or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is held by it with power to vote;

b. Any company the election of a majority of whose directors is controlled in any manner by a bank holding company; or

c. Any company with respect to the management or policies of which a bank holding company has the power, directly or indirectly, to exercise control, as determined by the Commissioner.

(7) For the purposes of any proceeding under subdivisions (5)c. and (6)c. of this section, there is a presumption that any company which directly or indirectly owns, controls, or has power to vote less than five percent (5%) of any class of voting

securities of a given bank or company does not have control over that bank or company. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-227. Registration of bank holding companies.

Every bank holding company, not later than July 1, 1985, or within 180 days after becoming a bank holding company controlling a North Carolina federally or State-chartered bank or banks, or within 180 days after acquiring control over a nonbank subsidiary or subsidiaries having offices located in this State shall register with the Commissioner on forms approved by the Commissioner. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-227.1. Criteria for certain bank holding company acquisitions.

(a) In addition to the criteria set forth in G.S. 53-211(a) and (b) to be used by the Commissioner in reviewing applications for acquisitions of North Carolina banks and bank holding companies, the Commissioner shall:

(1) Apply the criteria which would be applied to a North Carolina bank holding company making an acquisition in another state by the regulatory authorities of the State in which the applicant has its principal place of business, as defined by G.S. 53-210(10); and

(2) Shall approve that application only if the Commissioner finds it meets those additional criteria.

(b) In the event that the state in which the applicant has its principal place of business has no criteria other than the criteria similar to those set forth in G.S. 53-211(a) and (b), the Commissioner shall approve that application only if he determines that:

(1) The proposed acquisition would be not detrimental to the safety and soundness of the applicant or of the North Carolina bank or bank holding company which applicant seeks to control or whose stock is to be acquired; and

(2) The applicant, its directors and officers, if applicable, and any proposed new directors and officers of the North Carolina bank or bank holding company which applicant seeks to control or whose stock is to be acquired, are qualified by character, experience and financial responsibility to control and operate a North Carolina bank. (1985, c. 683, s. 2.)

§53-228. Cease and desist.

Upon a finding that any action of a bank holding company or nonbank subsidiary subject to this Article may be in violation of any North Carolina banking law, the Commissioner, after a reasonable notice to the bank holding company or its nonbank subsidiary and an opportunity for it to be heard, shall have the authority to order it to cease and desist from such action. If the bank holding company or nonbank subsidiary fails to appeal such decision in accordance with G.S. 53-231 hereof and continues to engage in such action in violation of the Commissioner's order to cease and desist such action, it shall be subject to a penalty of one thousand dollars ($1,000), to be recovered with costs by the Commissioner in any court of competent jurisdiction in a civil action prosecuted by the Commissioner. The penalty provision of this section shall be in addition to and not in lieu of any other provision of law applicable to a bank holding company's or its nonbank subsidiary's failure to comply with an order of the Commissioner. (1983 (Reg. Sess., 1984), c. 1113, s. 1.)

§53-229. Acquisition and control of certain nonbank banking institutions.

Notwithstanding any other provision of this Article or any other provision of the General Statutes of this State, no bank holding company or any other company may acquire or control any banking institution that:

(1) Has offices located in this State: and

(2) Is not a bank as defined in G.S. 53-226(1) of this Article.

For purposes of this section. "company" means any corporation. partnership. business trust. association. or similar organization. or any other trust unless by its terms it must terminate within 25 years or not later than 21 years and 10 months after the death of individuals living on the effective date of the trust. and "banking institution" means any institution organized under Article 2 of Chapter 53 (G.S. 53-2. et seq.) or Article 11 of Chapter 53 (G.S. 53- 136. et seq.) of the General Statutes of this State or under Chapter 2 of Title 12 of the United States Code (12 U.S.C. § 21. et seq.). Provided. the provisions of G.S. 53-229 shall not apply to applications by any company which is chartered by the Congress of the United States and which application is pending before the Commissioner on July 7. 1984. (1983 (Reg. Sess.. 1984). c. 1113. s. 1.)

§53-230. Rules.

Notwithstanding the provision of G.S. 53-95. the Commissioner may promulgate such reasonable rules as may be necessary to effectuate the purposes of this Article. (1983 (Reg. Sess.. 1984). c. 1113. s. 1.)

§53-231. Appeal of Commissioner's decision.

Notwithstanding any other provision of law. any aggrieved party may. within 30 days after final decision of the Commissioner and by written notice to the Commissioner. appeal directly to the North Carolina Court of Appeals for judicial review on the record. In the event of an appeal. the Commissioner shall certify the record to the Clerk of the Court of Appeals within 30 days thereafter. Such record shall include all memoranda. briefs and any other documents. data. information or evidence submitted by any party to such proceeding except for material such as trade secrets normally not available through commercial publication for which such party has made a claim of confidentiality and requested exclusion from the record which the Commissioner deems confidential. All factual information contained in any report of examination or investigation submitted to or obtained by the Commissioner's staff shall also be made a part of the record unless deemed confidential by the Commissioner. (1983 (Reg. Sess.. 1984). c. 1113. s. 1.)

§53-232. Fees.

Each bank holding company subject to this act shall pay the following fees:

(1) An initial registration fee of $1.000.

(2) An annual registration fee of $750.00.

(3) A fee of $50.00 for the issuance of any certified copies of documents plus $1.00 per page over a number of pages specified by the Commissioner. (1983 (Reg. Sess.. 1984). c.

ARTICLE 3A.

North Carolina Regional Reciprocal Savings and Loan Acquisition Act.

§54B-48.1. Title.

This Article shall be known and may be cited as the North Carolina Regional Reciprocal Savings and Loan Acquisition Act. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.2. Definitions.

Notwithstanding the provisions of G.S. 54B-4, as used in this Article, unless the context requires otherwise:

(1) "Acquire", as applied to an association or a savings and loan holding company, means any of the following actions or transactions:

a. The merger or consolidation of an association with another association or savings and loan holding company or a savings and loan holding company with another savings and loan holding company.

b. The acquisition of the direct or indirect ownership or control of voting shares of an association or savings and loan holding company if, after the acquisition, the acquiring association or savings and loan holding company will directly or indirectly own or control more than five percent (5%) of any class of voting shares of the acquired association or savings and loan holding company.

c. The direct or indirect acquisition of all or substantially all of the assets of an association or savings and loan holding company.

d. The taking of any other action that would result in the direct or indirect control of an association or savings and loan holding company.

(2) "Administrator" means the Administrator of the Savings and Loan Division.

(3) "Association" means a mutual or capital stock savings and loan association, building and loan association or savings bank chartered under the laws of any one of the states or by the Federal Home Loan Bank Board, pursuant to the "Home Owners' Loan Act of 1933", 12 U.S.C. Section 1464, as amended.

(4) "Branch office" means any office at which an association accepts deposits. The term branch office does not include:

a. Unmanned automatic teller machines, point-of-sale terminals, or similar unmanned electronic banking facilities at which deposits may be accepted;

b. Offices located outside the United States; and

c. Loan production offices, representative offices, service corporation offices, or other offices at which deposits are not accepted.

(5) "Company" means that which is set forth in the Federal Savings and Loan Holding Company Act, 12 U.S.C. Section 1730a(a)(1)(C), as amended.

(6) "Control" means that which is set forth in the Federal Savings and Loan Holding Company Act, 12 U.S.C. Section 1730a(a)(2), as amended.

(7) "Deposits" means all demand, time, and savings deposits, without regard to the location of the depositor; Provided, however, that "deposits" shall not include any deposits by associations. For purposes of this Article, determination of deposits shall be made with reference to regulatory reports of condition or similar reports made by or to State and federal regulatory authorities.

(8) "Federal association" means an association chartered by the Federal Home Loan Bank Board pursuant to the "Home Owners' Loan Act of 1933", 12 U.S.C. Section 1464, as amended.

(9) "North Carolina association" means an association organized under the laws of the State of North Carolina or under the laws of the United States and that:

a. Has its principal place of business in the State of North Carolina;

b. Which if controlled by an organization, the organization is either a North Carolina association, Southern Region association, North Carolina savings and loan holding company, or a Southern Region savings and loan holding company; and

c. More than eighty percent (80%) of its total deposits, other than deposits located in branch offices acquired pursuant to Section 123 of the Garn-St Germain Depository

Institutions Act of 1982 (12 U.S.C. 1730a(m)) or comparable state law. are in its branch offices located in one or more of the Southern Region states.

(10) "North Carolina Savings and Loan Holding Company" means a savings and loan holding company that:

a. Has its principal place of business in the State of North Carolina:

b. Has total deposits of its Southern Region association subsidiaries and North Carolina association subsidiaries that exceed eighty percent (80%) of the total deposits of all association subsidiaries of the savings and loan holding company other than those association subsidiaries held pursuant to Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)) or comparable state law.

(11) "Principal place of business" of an association means the state in which the aggregate deposits of the association are the largest. For the purposes of this Article. the principal place of business of a savings and loan holding company is the state where the aggregate deposits of the association subsidiaries of the holding company are the largest.

(12) "Savings and loan holding company" means any company which directly or indirectly controls an association or controls any other company which is a savings and loan holding company.

(13) "Service Corporation" means any corporation. the majority of the capital stock of which is owned by one or more associations and which engages. directly or indirectly. in any activities which may be engaged in by a service corporation in which an association may invest under the laws of one of the states or under the laws of the United States.

(14) "Southern Region association" means an association other than a North Carolina association organized under the laws of one of the Southern Region states or under the laws of the United States and that:

a. Has its principal place of business only in a Southern Region state other than North Carolina:

b. Which if controlled by an organization. the organization is either a Southern Region association or a Southern Region savings and loan holding company: and

c. More than eighty percent (80%) of its total deposits. other than deposits located in branch offices acquired pursuant to Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)) or comparable state law. are in its branch offices located in one or more of the Southern Region states.

(15) "Southern Region savings and loan holding company" means a savings and loan holding company that:

a. Has its principal place of business in a Southern Region state other than the State of North Carolina:

b. Has total deposits of its Southern Region association subsidiaries and North Carolina association subsidiaries that exceed eighty percent (80%) of the total deposits of all association subsidiaries of the savings and loan holding company other than those association subsidiaries held pursuant to Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)) or comparable state law.

(16) "Southern Region states" means the states of Alabama. Arkansas. Florida. Georgia. Kentucky. Louisiana. Maryland. Mississippi. North Carolina. South Carolina. Tennessee. Virginia. West Virginia. and the District of Columbia.

(17) "State" means any state of the United States and the District of Columbia.

(18) "State association" means an association organized under the laws of one of the states.

(19) "Subsidiary" means that which is set forth in the Federal Savings and Loan Holding Company Act. 12 U.S.C. Section 1730a(a)(1)(H). as amended. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.3. Acquisitions by Southern Region savings and loan holding companies and Southern Region associations.

(a) A Southern Region savings and loan holding company or a Southern Region association that does not have a North Carolina association subsidiary (other than a North Carolina association subsidiary that was acquired either pursuant to Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)). or comparable provisions in state law. or in the regular course of securing or collecting a debt previously contracted in good faith) may acquire a North Carolina savings and loan holding company or a North Carolina association with the approval of the Administrator. The Southern Region savings and loan holding company or Southern Region association shall submit to the Administrator an application for approval of such acquisition. which application shall be approved only if:

(1) The Administrator determines that the laws of the state in which the Southern Region savings and loan holding company or Southern Region association making the acquisition has its principal place of business permit North Carolina savings and loan holding companies and North Carolina associations to acquire associations and savings and loan holding companies in that state:

(2) The Administrator determines that the laws of the state in which the Southern Region savings and loan holding company or Southern Region association making the acquisition has its principal place of business permit such Southern Region savings and loan holding company or Southern Region association to be acquired by the North Carolina savings and loan holding company or North Carolina association sought to be acquired:

(3) The Administrator determines either that the North Carolina association sought to be acquired has been in existence and continuously operating for more than five years or that all of the association subsidiaries of the North Carolina savings and loan holding company sought to be acquired have been in existence and continuously operating for more than five years: Provided. that the Administrator may approve the acquisition by a Southern Region savings and loan holding company or Southern Region association of all or substantially all of the shares of an association organized solely for the purpose of facilitating the acquisition of an association that has been in existence and continuously operating as an association for more than five years: and

(4) The Administrator makes the acquisition subject to any conditions. restrictions. requirements or other limitations that would apply to the acquisition by a North Carolina savings and loan holding company or North Carolina association of an association or savings and loan holding company in the state where the Southern Region savings and loan holding company or Southern Region association making the acquisition has its principal place of business but that would not apply to the acquisition of an association or savings and loan holding company in such state by an association or a savings and loan holding company all the association subsidiaries of which are located in that state;

(5) With respect to acquisitions involving the merger or consolidation of two associations resulting in a Southern Region association. the application includes a business plan extending for an initial period of at least three years from the date of the acquisition which shall be renewed thereafter for as long as may be required by the Administrator. The association may not deviate without the prior written approval of

the Administrator from the business plan which shall address such matters as the Administrator may deem appropriate for the protection of the depositors and members of the acquired North Carolina association and the general public. The business plan shall address. without limitation:

a. Insurance of depositors' accounts.

b. Limitation of services and activities to those permitted under this Chapter to North Carolina associations.

c. Conversion of corporate form or other fundamental changes.

d. Closing. selling or divesting any or all North Carolina branches.

e. Protection of the voting rights of North Carolina members.

(b) A Southern Region savings and loan holding company or Southern Region association that has a North Carolina association subsidiary (other than a North Carolina association subsidiary that was acquired either pursuant to Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)). or comparable provisions in North Carolina law. or in the regular course of securing or collecting a debt previously contracted in good faith) may acquire any North Carolina association or North Carolina savings and loan holding company with the approval of the Administrator. The Southern Region savings and loan holding company shall submit to the Administrator an application for approval of such acquisition. which application shall be approved only if:

(1) The Administrator determines either that the North Carolina association sought to be acquired has been in existence and continuously operating for more than five years or that all of the association subsidiaries of the North Carolina savings and loan holding company sought to be acquired have been in existence and continuously operating for more than five years: Provided. that the Administrator may approve the acquisition by a Southern Region savings and loan holding company or Southern Region association of all or substantially all of the shares of an association organized solely for the purpose of facilitating the acquisition of an association that has been in existence and continuously operating as an association for more than five years: and

(2) The Administrator makes the acquisition subject to any conditions. restrictions. requirements or other limitations that would apply to the acquisition by the North Carolina savings and loan holding company or North Carolina association of an association or savings and loan holding Company in the State where the Southern Region savings and loan holding company or Southern Region association making the acquisition has its principal place of business but that would not apply to the acquisition of an association or savings and loan holding company in such state by a savings and loan holding company all the association subsidiaries of which are located in that state.

(3) With respect to acquisitions involving the merger or consolidation of two associations resulting in a Southern Region association. the application includes a business plan extending for an initial period of at least three years from the date of the acquisition which shall be renewed thereafter for as long as may be required by the Administrator. The association may not deviate without the prior written approval of the Administrator from the business plan which shall address such matters as the Administrator may deem appropriate for the protection of the depositors and members of the acquired North Carolina association and the general public. The business plan shall address. without limitation:

a. Insurance of depositors' accounts.

b. Limitation of services and activities to those permitted under this Chapter to North Carolina associations.

c. Conversion of corporate form or other fundamental changes.

d. Closing, selling or divesting any or all North Carolina branches.

e. Protection of the voting rights of North Carolina members.

(c) The Administrator shall rule on any application submitted under this section not later than 90 days following the date of submission of a complete application. If the Administrator fails to rule on the application within the requisite 90-day period, the failure to rule shall be deemed a final decision of the Administrator approving the application. (1983 (Reg. Sess., 1984), c. 1087, s. 1.)

§54B-48.4. Exceptions.

A North Carolina savings and loan holding company, a North Carolina association, a Southern Region savings and loan holding company, or a Southern Region association may acquire or control, and shall not cease to be a North Carolina savings and loan holding company, a North Carolina association, a Southern Region savings and loan holding company, or a Southern Region association, as the case may be, by virtue of its acquisition or control of:

(1) An association having branch offices in a state not within the region, if such association has been acquired pursuant to the provisions of Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m)), or comparable provisions of state law;

(2) An association which is not a Southern Region association if such association has been acquired in the regular course of securing or collecting a debt previously contracted in good faith, and if the association or savings and loan holding company divests the securities or assets acquired within two years of the date of acquisition. A North Carolina association, a North Carolina savings and loan holding company, or a Southern Region association may retain these interests for up to three additional periods of one year if the Administrator determines that the required divestiture would create undue financial difficulties for that association or savings and loan holding company. (1983 (Reg. Sess., 1984), c. 1087, s. 1.)

§54B-48.5. Prohibitions.

(a) Except as may be expressly permitted by federal law, no savings and loan holding company that is not either a North Carolina savings and loan holding company or a Southern Region savings and loan holding company shall acquire a North Carolina savings and loan holding company or a North Carolina association.

(b) Except as required by federal law, a North Carolina savings and loan holding company or a Southern Region savings and loan holding company that ceases to be a North Carolina savings and loan holding company or a Southern Region savings and loan holding company shall as soon as practicable and, in all events, within one year after such event divest itself of control of all North Carolina savings and loan holding companies and all North Carolina associations: Provided, however, that such divestiture shall not be required if the North Carolina savings and loan holding company or the Southern Region savings and loan holding company ceases to be a North Carolina savings and loan holding company or a Southern Region savings and loan holding company, as the case may be, because of an increase in the deposits held by association subsidiaries not located within the region and if such increase is not the result of the acquisition of an association or savings and loan holding company. Provided further that nothing in this Article shall be construed to permit interstate branching by associations nor to require the divestiture of a North Carolina association or a North

Carolina savings and loan holding company by a savings and loan holding company which acquired its subsidiary North Carolina association or North Carolina savings and loan holding company prior to the effective date of this Article. Nor shall anything in this Article be construed to prohibit any savings and loan holding company which has acquired a North Carolina association or North Carolina savings and loan holding company prior to the effective date of this Article from acquiring additional North Carolina associations or North Carolina savings and loan holding companies. Nor shall anything in this Article be construed to limit the authority of the Administrator pursuant to G.S. 54B-44. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.6. Applicable laws, rules and regulations.

(a) Any North Carolina association that is controlled by a savings and loan holding company that is not a North Carolina savings and loan holding company shall be subject to all laws of this State and all rules and regulations under such laws that are applicable to North Carolina associations that are controlled by North Carolina savings and loan holding companies.

(b) The Administrator may promulgate rules. including the imposition of a reasonable application and administration fee. to implement and effectuate the provisions of this Article. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.7. Appeal of Administrator's decision.

Notwithstanding any other provision of law. any aggrieved party in a proceeding under G.S. 54B-48.3 or G.S. 54B-48.4(2) may. within 30 days after final decision of the Administrator and by written notice to the Administrator. appeal directly to the North Carolina Court of Appeals for judicial review on the record. In the event of an appeal. the Administrator shall certify the record to the Clerk of the Court of Appeals within 30 days after filing of the appeal. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.8. Periodic reports; interstate agreements.

(a) The Administrator may from time to time require reports under oath in such scope and detail as he may reasonably determine of each Southern Region savings and loan holding company or Southern Region association subject to this Article for the purpose of assuring continuing compliance with the provisions of this Article.

(b) The Administrator may enter into cooperative agreements with other savings and loan regulatory authorities for the periodic examination of any Southern Region savings and loan holding company or Southern Region association that has a North Carolina association subsidiary and may accept reports of examination and other records from such authorities in lieu of conducting its own examinations. The Administrator may enter into joint actions with other savings and loan regulatory authorities having concurrent jurisdiction over any Southern Region savings and loan holding company or Southern Region association that has a North Carolina association subsidiary or may take such actions independently to carry out his responsibilities under this Chapter and assure compliance with the provisions of this Article and the applicable laws of this State. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§54B-48.9. Enforcement.

The Administrator shall have the power to enforce the provisions of this Article. including the divestiture requirement of G.S. 54B-48.5(b). through an action in any court of this State or any other state or in any court of the United States for the purpose of obtaining an appropriate remedy for violation of any provision of this Article. including such criminal penalties as are contemplated by G.S. 54B-66. (1983 (Reg. Sess.. 1984). c. 1087. s. 1.)

§§54B-49 to 54B-51. Reserved for future codification purposes.

STATEMENT OF WILLIAM T. GRAHAM

COMMISSIONER OF BANKS

MARCH 16, 1988

I have been asked to express my views on the effect that interstate banking has had on the following topics: (a) statewide distribution of credit and its impact on various sectors of our state; (b) cost and availability of other financial services; (c) pricing of financial services; (d) employment; (e) level of competition between financial institutions in the State; (f) financial product deregulation on the insurance, real estate, securities, and export industries.

Although no one can demonstrate a direct relationship between credit availability and general business development, some things are obvious. Of course, in any area where credit is restricted, be it geographical, industrial, or whatever, business does not thrive. However, once a certain level of credit availability is reached, it cannot be said with any reliability that a particular activity would have occurred had credit been available. Note that credit funds, not speculative investment, are being considered. Deposit taking institutions, i.e., banks, savings and loans, and credit unions, are regulated for safety and soundness. Thus, no matter whose other interests are being protected those of the depositors end up coming

first as well they should. In short, if funds are available to be lent, they will be lent if a good loan can be made.

Competition, from whatever source, drives down the cost of all financial services. This assertion is considerably easier to prove in areas of service other than in the cost of money. For example, when competition forces it, a financial institution, such as a bank, will lower the cost of maintaining a checking account, will give free safety deposit boxes, and will raise the interest rate it pays on certificates of deposit. These items can be advertised in the hope of getting new customers and keeping old customers. It is more difficult, however, for the bank to advertise that it has the lowest loan rates in town. Thus, only the few fortunate borrowers who have the ability and the time to shop for a loan can take full advantage of the competition in loan rates.

Bankers like long-term customer relationships. Because he can threaten to move his business elsewhere, the established borrower/customer is more likely to benefit from competition than the new borrower/customer who must shop for a loan. This circumstance works to the detriment of many small businesses, new businesses, and minority owned businesses. Lending is done along very traditional lines. If the borrower is new to credit, new to the business, possibly a marginal operator, and as all too frequently happens, unable to comprehend that the bank will simply not lend him money unless he can prove it will be paid back, then it does not matter if we have four banks in every block. The person is not going to get a loan. Needless to say, such a prospective borrower is in no position to shop for a loan.

A large portion of small business development should be devoted to how to apply for credit. This instruction should include an explanation of the very basics of what financial information will be required on paper before a lender will make a loan.

Increased competition, be it from banks already in North Carolina or banks that will come into North Carolina, certainly will help in this regard. The service cost of loans means that most banks simply will not make small loans, and this practice will continue to be true no matter how intense the competition becomes. Thus, even though many of the new bank applicants insist that one of their reasons for wanting to start a bank is that the big state-wide banks no longer make small loans, generally the new bank quickly finds that it cannot do so either and make a profit. The small borrower is thus forced into other credit sources, such as consumer finance companies. It should be noted, however, that all banks, in effect, continue to make small loans because of credit card availability and reserve account access items.

So far, the direct effect of interstate banking on employment in North Carolina is difficult to determine. North Carolina banks have gone into other states, and as these banks become bigger, more persons are employed. However, the overwhelming majority of this employment probably is outside North Carolina. The indirect effect on employment brought about by interstate banking is that we have had a large number of new banks formed. One of the other primary reasons given is that, "My bank has gotten too big and is no longer interested in my hometown." Many banking customers profess a desire to deal with a hometown bank, and even the super regionals do everything they can to preserve the hometown

image. However, it is expected that as the big boys get bigger smaller banks will prosper and there will be more of them--thus, more employment.

Because North Carolina has never had geographical restrictions on branch banking, the industry became stronger sooner and the competition keener in North Carolina than in many other areas. Again, this competition is more visible in almost every other area than the cost of credit. It is fair to say that many banks and savings and loans compete directly. For deposits, both institutions compete directly with money market accounts. It is also fair to say that even though competition is intense, the competition is probably more in the pricing of services rather than in the pricing of credit since the goal is establishment of a long-term relationship.

Financial product deregulation is expected to have little effect on the business engaged in by North Carolina based banks. North Carolina state banks have had these powers all along, and while many exercise the right to engage in other businesses, many do not. The increased knowledge that other business authority is available will undoubtedly bring some state-chartered banks into other businesses but this is really minimal. Of the 16 national banks in North Carolina many of them already engage heavily in other businesses in one manner or another. Even if full authority is granted it is doubtful that these banks are likely to go out and engage on a large scale in other businesses. If the desire to do this was overwhelming the national banks could have long ago changed their charters to state-chartered banks and engaged in these businesses. One likely effect may well be that out-of-state banks will purchase North Carolina securities firms. In short, if drastic

changes come, they are more likely to come from outside North Carolina in financial product deregulation having an effect on other North Carolina businesses.

Inevitably nationwide interstate banking is coming. North Carolina banks are strong enough to resist this challenge and the Reciprocal Banking Act has made them even stronger. The time will undoubtedly come when North Carolina banks will be purchased by banks from other states (a small one is pending now). This, in no way, shape, or form will mean the end or even the decline of the banking industry in North Carolina. The increased competition will be good for banking in North Carolina. The only reason it has not already happened is the strength of North Carolina banks and probably the temporary setback of merger and acquisition activity brought on by October 19. It would be helpful from the competition standpoint and from the regulatory standpoint if the 5-year provision on the acquiring of a newly chartered bank by a non-North Carolina holding company were removed. This would be especially helpful when, as sometimes occurs, the original investors are unable or unwilling to supply the additional capital needed to make a new bank really profitable and yet no in-state institution is willing to buy in.

The Reciprocal Banking Act has done an excellent job of protecting North Carolina banks long enough to allow them to be major players in the interstate banking market. It is time now to remove many of the restrictions on interstate banking. This removal will allow the public to benefit from the competition which clearly will be a result of out-of-state banks coming into North Carolina and from new banks forming

because of the increased loss of hometown image. A bank will go anywhere it can get deposits and anywhere it can make loans. Unfortunately, these places are not always identical. Deposits may be heavy in a particular area and loan demand weak. The bank, as an intermediary, loans the depositors' money out whether it is in Charlotte, Atlanta, or Brazil. It is high time that the system started to work the other way.

STATE OF NORTH CAROLINA

Office of Commissioner of Banks

The experience of the Commissioner of Banks in administering the Interstate Banking Act and the North Carolina Bank Holding Company Act of 1984 (NCBHCA).

I. The Interstate Banking Act

To date, no out-of-state bank holding company has acquired a North Carolina bank or bank holding company. The North Carolina Commissioner of Banks has not had any experience in the processing of an application for acquisition.

In anticipation of future activity, the Commissioner of Banks has established a working relationship with each state and federal bank regulator in our region. A formal agreement has been signed with: the Bureau of Financial Institutions, Virginia; Comptroller of the Currency (Administrator of National Banks), Atlanta; Federal Reserve Bank, Richmond, and the Federal Deposit Insurance Corporation, Atlanta Regional Office. These agreements provide for the confidential exchange of information from examinations and, in the case of the State of Virginia, the exchange of and comments on applications for acquisition.

The North Carolina Commissioner of Banks also has in place informal agreements for the sharing of information with: Federal Reserve Board, Washington, D. C.; Federal Reserve Bank, Atlanta; Department of Banking and Finance, Georgia; Department of Financial Institutions, Louisiana; Division of Banking, Florida; Commissioner of Banks, South Carolina; Department of Financial Institutions, Tennessee, and the Department of Financial Institutions, Alabama.

With the exception of the Federal Reserve Board, a joint meeting has been held each year since 1983 with the above regional bank regulators. At this meeting, the participants have planned the next year's Interstate Examination Program and have discussed any problems that they needed to resolve. While not currently active, the State regulators from Arkansas and Kentucky have participated in some meetings. The last meeting was held on December 3, 1987, and the 1988 examination schedule for all regional banks and bank holding companies was set for 1988. To date, all examination schedules have been met without any duplication of examination procedures. No regional bank or regional bank holding company has been subjected to a dual examination by Federal and State regulators. The cooperative

examination program along with the exchange of examination information is working well.

II. Bank Holding Company Act of 1984

An informal agreement has been made by the North Carolina Commissioner of Banks with the Federal Reserve Bank, Richmond, that provides for the exchange of data and for the examination and supervision of bank holding companies that are subject to the North Carolina Bank Holding Company Act.

The only area that has been a problem is the identification of holding companies that must register as required by Section 53-227. There is not any single record maintained by any regulatory agency (State or Federal) that lists all bank holding companies that are doing business in North Carolina.

THE OFFICE OF THE COMMISSIONER OF BANKS
(DECEMBER 31st, 1987)

NORTH CAROLINA BHC's
(alphabetically by city)

FNB Corporation, Asheboro, North Carolina
BarclaysAmerican Corporation, Charlotte, North Carolina
First Union Corporation, Charlotte, North Carolina
NCNB Corporation, Charlotte, North Carolina
First Charter Corporation, Concord, North Carolina
CCB Financial Corporation, Durham, North Carolina
Bank of Granite Corporation, Granite Falls, North Carolina
F & M Financial Corporation, Granite Quarry, North Carolina
Carolina Mountain Holding Company, Highlands, North Carolina
LSB Bancshares, Inc., Lexington, North Carolina
Southern National Corporation, Lumberton, North Carolina
Southern Bancshares (N.C.), Inc., Mount Olive, North Carolina
First Citizens Corporation, Raleigh, North Carolina
FNB Financial Services Corporation, Reidsville, North Carolina
Peoples Bancorporation, Rocky Mount, North Carolina
The Planters Corporation, Rocky Mount, North Carolina
First Security Financial Corporation, Salisbury, North Carolina
Mid-South Bancshares (N.C.) Inc., Sanford, North Carolina
First Bancorp, Troy, North Carolina
United Carolina Bancshares Corporation, Whiteville, North Carolina
Branch Corporation, Wilson, North Carolina
First Wachovia Corporation, Winston-Salem, North Carolina

OUT OF STATE BHC'S
(alphabetically by state.)

AmSouth Bancorporation, Birmingham, Alabama
Security Pacific Corporation, Los Angeles, California
Beneficial Corporation, Wilmington, Delaware
Barnett Banks of Florida, Inc., Jacksonville, Florida
The Citizens and Southern Corporation, Atlanta, Georgia
First Illinois Corporation, Evanston, Illinois
Citizens Fidelity Corporation, Louisville, Kentucky
Union Trust Bancorp, Baltimore, Md. (now..Signet Banking Group, Inc.)
Bank of New England, Boston, Massachuttes
Norwest Corporation, Minneapolis, Minnesota
Midlantic Banks Inc., Edison, New Jersey
Chemical New York Corporation, New York, New York
Citicorp, New York, New York
Manufacturers Hanover Corporation, New York, New York
Fleet Financial Group, Inc., Providence, Rhode Island
South Carolina National Corporation, Columbia, South Carolina
Sovran Financial Corporation, Norfolk, Virginia
United Virginia Bankshares Incorporated, Richmond, Virginia

Bank of Boston Corporation, Boston, Massachuttes (2-16-88)
Amity Bancorp, Inc., Woodbridge, Connecticut (2-25-88)

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March 16, 1988

Dear Members of the Committee on Interstate Banking:

Thank you for giving me the opportunity to address you today regarding the effects that we believe interstate banking has had on the lives of low income people in North Carolina.

For the past several years we in Legal Services have been retained by clients to deal with problems which are related to the continuing deregulation of the banking industry and the spread of interstate banking. Over the years, low income people have found it increasingly difficult to participate in the financial world, a convenience which is taken for granted by the rest of us. Low income people cannot afford to have bank accounts; they are finding that banks will often not lend money in small amounts, even when they are credit worthy; business loans in small amounts are increasingly difficult to obtain.

Citizens of this state are experiencing problems which may be caused or worsened by interstate banking. Given, the existence of these problems, oversight of the North Carolina banks engaged in interstate banking is an appropriate and timely task for the General Assembly to undertake.

<u>Problems Caused By Interstate Banking</u>

Affordability of Bank Accounts. It is becoming increasingly difficult for low income people to afford checking or even savings accounts. Checking accounts often require minimum balances or costly charges per check which cut severely into the income available for life's necessities. Even many savings accounts require minimum deposits. As Professor Nick Didow of the University of North Carolina School of Business can better explain, the bigger the bank the higher the charges for these consumer services. As North Carolina banks have been growing by leaps and bounds over the past few years, on the whole basic banking services have become less affordable.

Availability of Home Mortgage Loans. The large banks are closing their doors to credit worthy low income people who seek home mortgage loans to finance home purchases and home improvements. Several of North Carolina's largest banks have doubled or tripled in size because of interstate banking. The mortgage lending activities of these banks have generally grown at a similar rate. However, when the mortgage lending activity of one of the largest super-regional banks was closely analyzed, an alarming trend appeared. The census tracts including significant numbers of people living below the poverty line have received fewer and fewer mortgage loans every year since this bank began expanding across state lines.

Availability of Financing for Small Businesses. Small businesses with little to offer as security except personal guaranties and the sweat of the owners have traditionally had difficulty obtaining financing for start-up and growth. For just that reason the Small Business Administration's various loan programs were created. Under these programs, banks were offered incentives to make small business loans.

However, evidence from the SBA indicates that since the onset of interstate banking in North Carolina, SBA guaranteed loans to small businesses have declined precipitously. As this problem may be particularly acute in rural areas, the Rural Economic Development Center is conducting a major study to determine the extent of the lack of available financing to small businesses.

Oversight of Banks Involved in Interstate Banking Is Appropriate

Banks are different than other businesses. As most of a community's wealth is deposited in or flows through a local bank, the institution has tremendous control over the affairs of that community. The credit and deposit services of a bank are not luxuries but necessities to businesses and citizens. Through deposit insurance, access to the Federal Reserve's discount window, limitations on competition, and other measures, banks receive from government far more support and protection than do other types of enterprises.

Government also recognizes the special obligations of banks. From the chartering process that was established in the early days of the republic to the Community Reinvestment Act in 1977, Congress has consistently affirmed banks' responsibility to meet the convenience and needs of their communities. Regional interstate banking - a form of government protection that requires no explicit public benefits in return - represents a real challenge to the banking industry's ability to meet the different needs of the individual communities served by the banks.

Originally banks served single communities. The needs of the community then determined the services the bank offered. However, as banks grew, the definitions of a community's needs became vaguer, and were delineated more by region, thanlby state. The problem is that before interstate banking, the large banks in this state at least looked at the broad needs of North Carolina's communities. Even with statewide banking, local branches were limited in their ability to be responsive to those needs as bank policies were established on a statewide basis. With the advent of interstate banking, our large banks view their service areas as including several states, and the problems of local responsiveness is compounded. The abilities of interstate banks to meet the needs of small, rural and less affluent portions of North Carolina become more questionable as North Carolina's become larger.

Only the North Carolina legislature can compel banks taking deposits from North Carolina citizens to respond to the financial needs of those citizens. There are several remedies that this Committee can consider to address the problems caused or made worse by interstate banking. These remedies would neither disrupt interstate banking nor adversely effect the safety and soundness of the banks. Attached to this letter is a list of some methods the Committee can consider to deal with the issues raised by the changing financial climate created by interstate banking.

There are several people here today who have studied many of the specific questions which this Committee has been asked to address. Tom Schlesinger of the Southern Finance Project has done extensive analysis of the banking community in North Carolina. Professor Nick Didow has conducted surveys of banks to determine the cost of basic banking services. Rick Carlyle of the Rural Economic Development Center is in the midst of a study on need for small business financing in rural areas.

Again, I thank you for the opportunity to speak with you today. Please do not hesitate to contact me for more information on the effects of interstate banking on the lives of low income people in North Carolina.

Sincerely,

Margot Roten

THE FOLLOWING REMEDIES
WOULD GO FAR TOWARDS FIXING THE PROBLEMS
THAT THE STUDY COMMISSION MAY UNCOVER

1) Disclosure requirements. There are a number of notable gaps that exist regarding the available data on small business lending, commercial lending, local deposit information and the community reinvestment commitments of banks. Additional data in these areas is a necessity to fully determining the extent of the problems that have caused the changing regulatory structure over banks.

Disclosure requirements would allow the Legislature and the public to find out A) the true cost of services provided by banks; B) the actual interest income on deposit accounts and the potential costs of consumer accounts; and C) the distribution of mortgage, consumer and commercial and agricultural credit by geographic area and borrower type.

Significant disclosure ought to affect the voluntary actions of better-informed depositors, investors and borrowers. Those actions, in turn, might have a salutary, self-administering effect on North Carolina's financial system. The idea of market discipline works exactly the same way for credit distribution as it does for safety and soundness considerations.

Let's say you're a depositor in County A, which has two commercial banks and no other depositories. It's disclosed that Bank A makes 70 percent of its commercial and farm loans outside the county and two-thirds of that 70% goes outside North Carolina. Bank B meanwhile, makes 25 percent of its commercial and agricultural loans outside the county and they're all in North Carolina. If you're banking at A and the disclosure convinces you that A isn't pulling its weight in the local economy, you're free to shift your savings to B. No bureaucracy tells you where to bank or tells the institutions where to lend.

2) More precise legislative definition of the "convenience and needs" language in North Carolina banking law and broad application of those convenience and needs requirements. North Carolina statutes are murky on the ascertaining of "convenience and needs." And although several other southeastern states require that out-of-state banks meet a convenience and needs test when merging with or acquiring an in-state bank, no such requirement exists in North Carolina.

A more precise North Carolina convenience and needs test ought to include most of the twelve factors that structure Community Reinvestment Act examinations. It ought to speak to the problems presented by excessive insider lending. And it ought to be applicable to national banks (including out-of-state banks merging with and acquiring North Carolina banks) as well as other financial service enterprises that take deposits or make commercial loans. Prescribing a more precise test and widening its applicability would require amending the state law.

3) Incentives and disincentives for institutions receiving deposits from and managing investments for public bodies. There seem to be two ways to go about this. One involves following the kind of "linked deposit" programs pioneered in other states. These approaches attempt to provide needed liquidity to community banks, to stimulate disclosure of lending activities and/or to target loans, sometimes on favorable terms, to specified sectors of the economy (like small businesses).

A somewhat different approach would use depositories' disclosures to measure their relative contribution—weighted by bank size and other variables--to local and state economic health and financial soundness. Public entities would then apportion deposits and investments based on those measurements to the degree allowed by prudent cash management principles. In other words, a bank that is found to be lending half the deposits it collects in North Carolina to apparel manufacturers in Sri Lanka would receive fewer public deposits than a comparably-sized bank using 85 percent of its North Carolina deposits to fund productive, job-generating activities in North Carolina. North Carolina's longtime branching tradition and numerous statewide financial franchises make such a system more feasible here than in many other states.

4) Expanded and clarified regulatory duties and powers for the banking commissioner and other state officials. The Banking Commissioner is the logical official to: assist banks in disclosing relevant regulatory assessments and actions; oversee the regular disclosure of deposit account and loan information; make convenience and needs determinations; establish or adjust ceiling prices on bank products; and monitor and rank the performance of depositories eligible to receive deposits from and manage investments for public bodies in North Carolina (the Treasurer's office and statutory duties might come into play here too).

5) State funded secondary market for community reinvestment loans. At a relatively low cost, the state could fund a public corporation whose function would be to buy community reinvestment loans from North Carolina banks. This would encourage banks to make, for example, small loans to small businesses which previously were not "cost justified."

Testimony of

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University of North Carolina at Chapel Hill

Before the Committee on Interstate Banking
of the Legislative Research Commission

of the

North Carolina General Assembly

on

The North Carolina Regional Reciprocal Interstate Banking Act
and
The North Carolina Bank Holding Company Act of 1984

Wednesday, March 16, 1988

I. Introduction

It is a pleasure for me to appear before you to participate in your evaluation of North Carolina's 1983 legislation permitting the interstate acquisition of North Carolina banks by bank holding companies on a regional basis. You have raised an enormous number of issues and questions including the effects of this legislation on 1) the statewide distribution of credit, 2) on traditional industries, small business, depressed counties, etc., 3) the cost and availability of credit, 4) the pricing of financial services, 5) employment, 6) the level of competition, and the effects of financial product deregulation on the insurance, real estate, securities and export industries.

This concern for the local effects of interstate banking, follows from the traditional arguments voiced whenever states have been confronted with proposals to permit intra state expansion within their borders. The fear is that acquisitions of local banks by larger, out of area banks would drain funds from local areas into the regional and national markets, would raise loan prices in local areas, increase concentration of financial resources and generally frustrate local economic growth.[1] North Carolina, of course, implicitly confronted most of these issues long ago when it permitted unrestricted intra state banking. No evidence has since been put forth, to the best of my knowledge, that intra state banking has been detrimental to the growth or development in the state or to its communities. Never-the-less, these politically remain relevant and interesting concerns as we move from intra to interstate banking. Unfortunately there is little relevant current

[1] See for example the concerns expressed by the Small Business Administration in 1982 when interstate banking was under wide consideration, "Many small business owners are concerned whether their financing needs will be met if small banks survive only as branches of larger banks." U. S. Small Business Administration, The Annual Report on Small Business and Competition, (Washington, D.C.) 1982.

research or information that bears directly upon these and the more specific questions you have raised. Moreover, I would urge you to be very skeptical of any work claiming to identify the effects of the changes in North Carolina law because a host of other financial market changes occurred at about that time. These changes include the deregulation of deposit rate ceilings, the authorization of new deposit accounts to permit banks to compete with money market mutual funds, the broadening of thrift institution powers, the globalization of financial markets, and the expansion of nonbank competitors, including insurance companies and securities firms, into markets traditionally served by commercial banks. The resulting increase in competition has narrowed bank margins, reduced profits, and radically changed bank pricing and marketing practices. Because of all these changes, it is virtually impossible to isolate the impact of the changes in the branching laws from all the other forces that were also operating on the industry.

In the absence of more current evidence, what I would like to do is to briefly summarize the old evidence as it exists. As a preview, previous reviews and studies of the issues argued that none of the fears I have listed above were justified, and in fact, many benefits from intra state branching would result.[2] Two of the most noteworthy of these reviews were conducted by the U.S. Senate and by the Department of the Treasury.[3] That latter report, identified several policy issues to be considered, and these included the implications for

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[2] It has been my experience that special interest groups have attempted to protect themselve from outside competition by praying on the fears of those who are concerned about the cost and availability of financial services.

[3] See "Compendium of Issues Relating to Branching by Financial Institutions," Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs, U.S. Senate, 94th Congress, 2d. Session, October 1976, and Geographic Restrictions on Commercial Banking in the United States, Report of the President, Department of the Treasury, January 1981.

1. the level and quality of services to local communities,

2. the viability of smaller banks,

3. competition and concentration of resources, and

4. safety and stability of the system.

Before I discuss these issues, however, I would like to summarize the impact that the changes in the North Carolina law have had on the structure of banking in North Carolina. These facts alone would suggest the difficulty of determining the effects of the law on banking service in North Carolina.

North Carolina Banking Structure

To date, the changes in the law have had virtually no effect on the number of banks in North Carolina or on the structure of banking within the State. As of October 5, 1987, no North Carolina banks have been acquired by bank holding companies located outside of the state. This contrasts with the experience of Florida where 23 banks were acquired (and another 10 were pending) by banks located within the Southeast banking region.[4] Out of state banking organizations now have significant presences in Florida, South Carolina and Georgia.

With no outside entry, its hard to see how there could be any effects on banking within the state. We do know, however, that 5 North Carolina banks have made acquisitions in other states, with three being extremely active.[5] NCNB, First Union and First Wachovia have more than doubled their size since the law change, and most of this growth was through acquisition. It is important note, however, that their acquisitions were not the result of

[4] Comparable figures for Georgia are 13 acquisitions and zero pending. For South Carolina there were 11 acquisitions and one pending.

[5] Out of state acquisitions have been made by NCNB, First Wachovia, First Union, Southern National Corp., United Carolina Bank Shares.

changes in North Carolina law that permitted them to acquire out of area banks, but rather were the result of passage of laws within the other states which permitted out of area banks to acquire banks within the state.[6] While it is true that this permission was conditioned upon passage of reciprocal legislation by North Carolina, but the requirement for reciprocity was a decision by those other states and not by North Carolina.

Why has there been so little interest in North Carolina banks by out of state banks? It is certainly not because the State is unattractive. There is one main reason in my view. Because of North Carolina's long standing intra state banking structure, competition was more fierce than in the other states in the region, such as Georgia and Florida, which had more restricted branching laws and, hence, had more protected local banking environments. This meant that margins were such that entry into North Carolina would be difficult, only marginally profitable and would not justify the high premiums that would have to be paid. Moreover, because North Carolina's small existing banks were toughened by competition, there were not a lot of weak banks that might be purchased at bargain prices.

If we are to find any effects of the legislation on North Carolina banking to date, it must lie in either the benefits or costs to the state that have accrued as the result of the out-of-state expansion by its three major institutions. Benefits would arise to the extent that funds were syphoned from other states to fund North Carolina business, that larger banking organizations result in lower costs through the realization of scale or scope economies, or through the introduction of new services. Its not likely that funds have been diverted from these other states to North Carolina, for

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[6] NCNB, for example, acquired a Florida bank before the North Carolina law changed.

reasons that are discussed below. Furthermore, from examination of the balance sheets of these banks, there does not seem to have been a significant reduction in costs. I just don't have information on the new services that may have been made possible as the result of the interstate expansion of these institutions, and this might prove to be a fruitful line of inquiry for the Committee.

I should now like to address the four issues that I listed at the outset of my testimony.

Level and Quality of Services

In evaluating the effects of interstate banking on the level and quality of services in local markets, its useful to focus on three classes of customers: consumers and small businesses, middle market firms, and municipalities.[7] National market firms would be unaffected since they are not confined in their search for services to local markets.

The evidence from studies of intra state banking suggest that both the level and quality of service should increase, since there would not be a reduction in the number of suppliers in metropolitan areas, and in the longer run, the number of offices in rural and non metropolitan areas should increase slightly. Indeed, most of the acquisitions we have seen so far have been in metropolitan markets, which have simply replaced smaller firms (albeit large in absolute size) with larger firms. In the longer run, these larger firms would be expected to expand into adjacent non metropolitan areas, thus increasing the number of competitive alternatives in non metropolitan markets

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[7] See also Paul M. Horvitz, "Alternative Approaches to Interstate Banking," Economic Review, Federal Reserve Bank of Atlanta, May 1983.

and rural areas and increasing consumer convenience in these smaller markets.[8] Because of the larger relative size of these new entrants, the range of services would be expected to increase as well.[9]

More importantly, the research evidence suggests that the availability of credit, both in the aggregate and to small and middle-market businesses, to consumers, and municipalities should increase. Branch banks, for example, have higher lending limits and also make a higher portion of their loans to local customer than do unit banks.[10] Moreover, when one looks at the proportion of loans funded with deposits raised locally, community banks were shown to have raised about 95.4% of their funds in local markets while deploying only 56.8 % of their assets in local markets.[11] This general pattern of funds deployment also suggest that small local banks, through use of the federal funds and government securities market, are already adept at syphoning funds from local areas and channeling them into the national markets.

In contrast, regional banks (those between $ 1 to $ 10 billion in assets) raised about 61.5% of their funds in local markets while committing 54% of their assets in local markets. Money center institutions (those in excess of

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[8] See Guttentag, Jack M., "Branch Banking in Alabama," mimeo, February 1976 or Jessup, Paul F. and Richard Stoltz, "Customer Alternatives Among Rural Banks," Journal of Bank Research, Summer 1975.

[9] Whether these services will be used is another matter.

[10] See Robert A. Eisenbeis, "Non-Local Markets for Business Loans," Journal of Bank Research, Winter 1972 (FDIC Working Paper No. 71-21) and Robert A. Eisenbeis, "The Allocative Effects of Branch Banking Restrictions on Business Loan Markets," FDIC Working Paper No. 73-8, Journal of Bank Research, Spring 1975, and Robert A. Eisenbeis, "Local Banking Markets for Business Loans," Journal of Bank Research, Summer 1971 (FDIC Working Paper No. 71-7).

[11] See Constance R. Dunham, "Interstate Banking and the Outflows of Local Funds," New England Economic Review, March/April 1986.

$ 10 billion) raised about 26.2% of their funds in local markets and deployed about 28.5% of their assets in local markets. Put another way, the ratio of local-uses to local-sources of funds were 60% for community banks, 90 % for regional banks and 110% for money center banks. This is hardly a pattern consistent with the charge that large branch banking organizations syphon funds from local communities to channel into the national markets, and it is for this reason, that I would not expect the three major North Carolina banks to obtain significant amount of funds in other states for deployment in North Carolina.

It has also been argued that large banks, by virtue of their access to lower costs of funds, both long and short term, would lower the cost of credit to borrowers. But this advantage, if it exists, may be of marginal significance because financial innovations and technology have opened national credit and deposit-type markets to even small customers. We are routinely inundated with mail solicitations for credit cards, and the advent of the 800 telephone number and money market mutual funds and cash management accounts means that almost anyone can obtain a market rate on deposits at low transactions costs.

The evidence on the effects of mergers also does not suggest that acquisition of smaller banks by larger banks has a detrimental effect on the availability of funds locally. Affiliated banks do tend to channel more funds to correspondent banks and into the federal funds market, but these flows are offset to a great extent by expansion of their loan portfolios. Thus, affiliation tends to be associated more with a redeployment of funds from government securities rather than a net reduction in the availability of funds locally. Certainly, the evidence is that a wider array of services becomes available, and that interest rates on deposits tend to increase as well.

The Viability of Small Banks

Not withstanding the widespread fears of smaller banking organizations, interstate banking has not proved to be a threat to the viability of small banks. Numerous small banks already operate in major metropolitan markets in head to head competition with large banks. In North Carolina, this lack of threat is quite apparent. Our large banks are among the most successful in the nation, yet we also have a wide range of large medium and small banks that have prospered by competing with these major organizations. Moreover, as I have already suggested, there is no evidence that large banks enjoy cost or scale economies over small banks.[12] Finally, small banks have not proved to be the targets for acquisition by out of state organizations.

Safety and Soundness

Safety and soundness issues also weigh in favor of interstate banking. To the extent that competition, loan-to-deposit ratios and leverage may be increased, then one might conclude that bank risk would be increased. This increased risk, however, is counter balanced by a number of factors, including the opportunities for greater product and geographic diversification and the ease in facilitating the takeover of failing institutions. Studies reveal little effect of expanded geographic expansion opportunities on bank closings. To the contrary, fewer multi-office banks of bank holding companies fail or appear on the regulatory agencies' problem lists.[13] North Carolina's recent

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[12] For reviews of the scale economy literature see David B. Humphrey,"Costs and Scale Economies in Financial Intermediation,"Board of Governors of the Federal Reserve System, July 1983.

[13] See Alan S. McCall and John T. Lane, "Multi-Office Banking and the Safety and Soundness of Commercial Banks," Journal of Bank Research, Summer 1980.

experience, as well as that in New England and in the rest of the Southeast banking region, is consistent with these research results. For example, there have been no bank failures in North Carolina in the last several years, despite historic high rates of failure nationally. Most of the failures have occurred in unit and limited banking states where geographic diversification is restricted and competition in local market less intense. I would argue that North Carolina's branching structure has contributed to increased competition, which in turn has resulted in stronger institutions better able to stand the stress of financial innovation, structural change and difficult local economic conditions.

Competition and Concentration

One of the most controversial issues surrounding interstate banking deal with the implications for competition and concentration. It is often argued that wider geographic expansion will be associated with increased consolidation of the banking system. And this consolidation is likely to take place - as it has already begun in New England and the South - by first combining the largest competitors rather than assuring that a large number of more equal sized competitors are formed and then allowed to compete head to head.

The Carter Administration voiced fear that existing antitrust laws and policies may not be adequate to guide the transition from a regional and local banking system to one that permits wide geographic expansion with the consequence that the financial system will be dominated by a very few giant organizations. This was one of the principle arguments for many of the regional approaches to liberalizing interstate banking restrictions. It was an important consideration to the Southern Growth Policies Board endorsement

of the regional approach in 1982. This objective clearly has been achieved in that several very strong "super regionals" emerged in the South and in the other regions. In fact, First Union earned more money in 1987 than any other bank in the U.S. The growth of a significant number of strong challengers to the money center banks, who have been plagued with credit quality and earnings problems, is one of the more interesting consequences of the regional approach. The development of these "super regionals" suggests that the threat of money center banks dominating the economy should not now be of great concern.

Branching and Economic Growth

There is little doubt that restrictions on geographic expansion have, in the past, insulated many local markets from competition and probably has restricted economic growth. While casual inspection of the data suggests that states with more liberalized policies toward intrastate banking have generally had higher economic growth rates than unit banking states, empirical studies show no convincing relationship between banking structure and economic development. In short, I am not at all convinced that promotion of growth is likely to be a direct or immediate consequence of changes in branching laws.

Conclusions

Having reviewed some of the issues and lamented the lack of evidence on the issues that you raised in holding these hearings, I struggled at what the final message was that I wanted to leave you with. My bottom line is that most of the concerns and objectives that were expressed as to the hoped for benefits of interstate banking may appear to be misplaced, at least in terms of being able to show tangible effects from changing the law. This is not to

say that they are not important or laudable objectives. Rather, one has to look more at the general benefits of having a competitive banking system - which include lower prices, efficient allocation of credit and a safe and sound banking system for the real and lasting benefits. The financial system was evolving in a way that interstate banking restrictions were placing many institutions at a competitive disadvantage, and hence, the cost of not passing the changes in the law would have been a lesser role for traditional banking organizations and a weaker banking system than we presently have. North Carolina certainly would not have found itself in the situation that befell Texas, but with a more competitive banking structure, we certainly reduced the chances.

ISSUES IN BANK MARKETING PRACTICES
IN THE AGE OF INTERSTATE BANKING

by

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Before the

Committee on Interstate Banking
Legislative Research Commission
North Carolina General Assembly

March 16, 1988

Introduction

Thank you for the opportunity to appear before the Committee on Interstate Banking. I hope that today I can provide some helpful information for the Committee concerning several of the specific topics to be addressed by the Committee. It is quite possible that I may also be able to provide research and opinion with respect to other issues and questions the Committee may wish to pursue in the course of the study.

I wish to congratulate the General Assembly for establishing this study Committee. The continued health and well-being of the financial services industry is critical for the people of this state. This industry has served the people well over the past decades and it is entirely appropriate for public officials to take steps to ensure that the financial services industry will continue to serve North Carolina well in the uncertain and changing time ahead.

Furthermore, I believe that as industries appear before legislative bodies to request additional protective or enabling regulations, it is appropriate to review the extent to which they have been good stewards of previously awarded protective or enabling regulations.

It is generally very difficult to sort out the effects of interstate banking legislation on the state financial services industry. The business environment is rapidly changing due to so many other factors. Yet the development of sound public policy requires that the Committee make the best possible effort to enact such an evaluation.

Issues With Respect to the Cost and Availability of Services and the Pricing of Financial Services

Do Economies of Scale or Scope Result from Interstate Banking?

The larger banks that have aggressively pursued interstate banking were generally the more expensive banks prior to interstate banking and continue to be the more expensive banks for retail customers today. Retail customer services are usually much more expensive from these banks than from smaller banks that have not pursued interstate banking, and certainly more expensive than comparable services available from a savings and loan or a credit union. Are there economies of scale or economies of scope in interstate banking that will lower transactions costs and lower the price of banking bore by the customer?

I see no evidence that the price of financial services has been lessened in interstate banks. To the contrary, these banks have raised their prices, by gradually increasing minimum balance and average balance requirements and default service fees, at an annual rate of between 7% to 10%. (Attached is a census of current checking accounts and terms available from all the banks in a medium sized North Carolina community.) CCB, a bank that has not pursued interstate banking, is one exception to this trend. CCB has recently lowered the minimum balance requirements on its basic checking account.

Additionally, the current terms and requirements of most basic checking accounts are unaffordable by as many as 25% of North Carolina households, based on current annual earnings alone. For example, an average checking balance requirement of $1,000 means that monthly after-tax earnings $2,000 must be deposited to avoid default

service fees. This would translate into roughly $24,000 of after-tax household income a year, an amount in excess of the earnings achieved in over a fourth of North Carolina households. (See attached Demographic Profile of North Carolina Households by Annual Income Categories.)

Deposit accounts generally continue to enact a substantially higher price on low balance accounts than on higher balance accounts. This price is reflected by the default service fee structure, a source of income that is of increasing importance to many banks (see attached table of 1986 Annual Fee Income From Deposit Accounts for Selected North Carolina Banks). The question remains, however, as to whether the default fee structure effectively reflects the cost of the services plus a reasonable profit margin for the bank.

A current trend in many banks is to also establish new balance requirements and default service charges for savings accounts. The same issues apply here -- do these prices reflect the underlying cost of the services plus a reasonable profit margin for the bank?

<u>Have the Interstate Banks Developed More New Products for North Carolina Markets?</u>

As the attached census of personal checking services indicates, there are currently a number of alternatives for checking services available to retail customers from most banks. In Chapel Hill, for example, the seven banks in this community offer a total of at least thirty-seven different checking accounts. This does notinclude the numerous similar accounts available from savings and loans or credit unions in the community. It is a very difficult task for a consumer to sort out among these alternative accounts. No central information clearing house or evaluation service (like a <u>Consumer</u>

Reports) has emerged.

Most banks have recently developed new products for high balance accounts. A second area of recent product development has been for the "senior citizen/retired" market segment. Several noninterstate banks developed and launched "senior citizen" banking packages in the early months of 1986. NCNB's "60 Plus Club" and First Union's "Benefit Banking" were not launched until 1987 and June of 1988, respectively.

To their credit, two of the major interstate banks, Wachovia and First Union, have recently developed versions of economy checking accounts. The major cost saving for the bank in these accounts comes from the fact that they are truncated accounts. That is, the bank holds the actual checks written on the account, rather than returning the cancelled checks to the customer along with a checking statement. Regardless of the merits of these accounts, however, the idea of truncated accounts is well-established in financial services and had been actively used as a cost reduction procedure by many financial institutions long before the days of interstate banking.

One remedy to provide low cost/ no cost innovative financial services to retail and commercial customers might be to link the holding of public monies to providing these services.

Issues With Respect to Direct and Indirect Employment Effects of Regional Interstate Banking

Have jobs left North Carolina and been moved to other states as a result of Interstate Banking? What does the future hold with respect to this issue?

Attached is a recent announcement by First Union that credit card and overdraft protection processing activities and accounts will be moved out of North Carolina to First Union National Bank of Georgia effective June 1, 1988. What are the implications of this move? Have other banking functions been moved out of North Carolina by this and other interstate banks? Are others planned for the future? I have no insights concerning these issues -- I can only bring this to the attention of the Committee.

CENSUS OF PERSONAL CHECKING SERVICES
AVAILABLE FROM BANKS IN CHAPEL HILL
(NOTE: DOES NOT INCLUDE PERSONAL CHECKING
SERVICES AVAILABLE FROM SAVINGS AND LOANS
OR FROM CREDIT UNIONS)

BANK	BASIC ACCOUNTS (WITH NO SERVICE CHARGES)	DEFAULT SERVICE FEES: MONTHLY MAINTENANCE	DEFAULT SERVICE FEES: DEBIT FEES
FIRST UNION	(1) NO MINIMUM CHECKING (a) no service charge exemption (b) truncated account	$3.00	$.25/check over 10 checks ATM free
	(2) PERSONAL CHECKING (a) $500 minimum checking balance, or (b) $1,000 average checking balance	$3.00	$.25/check ATM free
	(3) INTEREST CHECKING (NOW) (a) $650 minimum checking balance, or (b) $1,800 average checking balance	$3.00	$.25/check ATM free
	(4-7) "CUSTOMIZED BANKING" PROGRAMS "bundled" accounts for high balance customers and over 55's with high balances (a) includes "ORGANIZED BANKING" "simple and efficient banking at the lowest possible cost" (i) $400 minimum checking or savings balance, or (ii) $750 average checking balance	$5.00	$.25/check over 20
NCNB	(1) REGULAR CHECKING (a) $500 minimum savings balance, or (b) $600 minimum checking balance, or (c) $1,000 average checking balance	$3.25	$.25/check $.25/ATM

NCNB (cont)	(2) BONUS CHECKING (NOW) (a) $700 minimum checking balance, or (b) $1,200 minimum savings balance	$4.00	$.25/check $.25/ATM
	(3) MONEY MARKET CHECKING (a) $7,500 minimum checking balance, or (b) $10,000 average checking balance	$5.00	$.25/check $.25/ATM
	(4) DELUXE BANKING (a) $2,500 average savings balance, or (b) $10,000 in CD (c) many other benefits also included	$10.00	$.25/check $.25/ATM
WACHOVIA	(1) REGULAR CHECKING (a) $500 minimum checking balance, or (b) $400 minimum savings balance, or (c) $1,250 average checking balance.	$3.00	$.25/check $.25/ATM
	(2) ECONOMY CHECKING (a) no service charge exemption (b) truncated account	$3.00	$.50/check or ATM over 12 per month
	(3) INTEREST/CHECKING (a) $600 minimum checking balance, or (b) $2,000 average checking balance	$3.00	$.25/check $.25/ATM
	(4) MONEY MARKET CHECKING (a) no service charge exemption	$3.00	$.25/check $.25/ATM
	(5) WACHOVIA CROWN ACCOUNT (a) high balance "bundled" account with many extra benefits (b) requires $2,500 savings balance, or (c) $10,000 in investment/CD accounts	$10.00	$.25/check $.25/ATM

CCB	(1) BASIC CHECKING (a) $250 minimum in Premium Savings, or (b) $400 minimum checking balance, or (c) $1,250 average checking balance	$3.00	$.25/check ATM free
	(2) INTEREST CHECKING (a) $1,000 minimum checking balance, or (b) $2,500 average checking balance	$7.00	$.25/check over 10 checks ATM free
FIRST CITIZENS BANK	(1) REGULAR CHECKING (a) $500 minimum savings balance, or (b) $500 minimum checking balance, or (c) $1,000 average checking balance	$3.25	$.25/check $.20/ATM
	(2) CHECK WITH INTEREST (NOW) (a) $600 minimum checking balance, or (b) $2,000 average checking balance	$3.25	$.25/check $.20/ATM
	(3) INSURED MONEY MARKET CHECKING NOW ACCOUNT (a) no service charge exemption (b) $1,000 minimum balance	$3.25	$.25/check $.20/ATM
	(4) PREMIER ACCOUNT (a) includes many extra benefits (b) requires $2,500 minimum savings balance, or (c) $10,000 minimum total deposit and investment accounts, or (d) home equity loan	$12.00	$.25/check $.20/ATM

THE VILLAGE BANK	(1) REGULAR CHECKING (a) $300 minimum savings balance, or (b) $300 minimum checking balance, or (c) $1,000 average checking balance	$3.00	$.25/check ATM free
	(2) NOW CHECKING (a) $500 minimum savings balance, or (b) $1,000 minimum checking balance, or (c) $2,000 average checking balance	$5.00	$.25/check ATM free
	(3) UNIVERSAL CHECKING (a) $600 minimum checking balance	$5.00	$.25/check ATM free
	(4) INVESTMENT BANKING PACKAGE (a) high balance, "bundled" account with many extra benefits		
UCB	(1) REGULAR CHECKING (a) $500 minimum checking balance (b) $1,000 average checking balance (c) $500 minimum savings balance	$4.00	$.25/check ATM free
	(2) GOLDEN AGE (55) CHECKING (a) includes a few additional benefits (b) no minimum balance requirements	no charge	no charge
	(3) CHECK START (a) no service charge exemption	$4.00	$.25/check over 20 checks ATM free

UCB (cont)	(4) UCB-1 CHECKING PLAN I	$6.00	$.20/check over 30 checks ATM free
	(5) truncated account version	$5.00	$.20/check over 30 checks ATM free
	(6) UCB-1 CHECKING PLAN II (a) includes $10,000 accidental death insurance	$7.00	$.20/check over 30 checks ATM free
	(7) truncated account version	$6.00	$.20/check over 30 checks ATM free
	(8) UCB-1 CHECKING PLAN III (a) includes $20,000 accidental death insurance	$8.00	$.20/check over 30 checks ATM free
	(9) truncated account version	$7.00	$.20/check over 30 checks ATM free
	(10) UCB NOW CHECKING (a) $900 minimum checking balance (b) $1,900 average checking balance (c) $900 minimum savings balance	$4.00	$.25/check ATM free
	(11) UCB PASSPORT BANKING (a) $5,000 minimum checking balance (b) $5,000 minimum savings or CD balance (c) includes many other benefits	$15.00	$.25/check ATM free

Source: Respective bank brochures and field visits March, 1988.

DEMOGRAPHIC PROFILE OF
NORTH CAROLINA HOUSEHOLDS
BY ANNUAL INCOME CATEGORIES

	1980 CENSUS	1987 ESTIMATE
TOTAL POPULATION	5,881,766	6,370,824
TOTAL HOUSEHOLDS	2,043,291	2,293,814
AVERAGE HOUSEHOLD SIZE	2.8	2.7

	1980 CENSUS		
ANNUAL HOUSEHOLD INCOME	NUMBER	PERCENT	1987 ESTIMATE
\$ 0 - \$ 7,499	499,951	24.4%	17.5%
\$ 7,500 - \$ 9,999	192,939	9.4%	6.5%
\$10,000 - \$14,999	364,746	17.8%	13.0%
\$15,000 - \$24,999	564,896	27.6%	22.7%
\$25,000 - \$34,999	258,361	12.6%	18.5%
\$35,000 - \$49,999	110,623	5.4%	12.9%
\$50,000 - \$74,999	36,194	1.8%	6.1%
\$75,000 +	18,004	.9%	2.8%

Source: 1980 Census and Donnelley Demographics

1986 ANNUAL FEE INCOME FROM DEPOSIT ACCOUNTS
FOR SELECTED NORTH CAROLINA BANKS

BANK	1986 ANNUAL INCOME FROM SERVICE CHARGES ON DEPOSIT ACCOUNTS
FIRST UNION	$93,989,000
NCNB	82,252,000
WACHOVIA	82,887,000
UCB	12,194,000
CCB	9,233,678
PEOPLES	6,533,000
PLANTERS	4,879,621

Source: Selected 1986 Annual Reports

First Union National Bank
of North Carolina
First Union Plaza
Charlotte North Carolina 28288

FIRST UNION

March 1, 1988

Dear Customer:

Over the past three years, First Union has been expanding banking operations in North Carolina, South Carolina, Florida, Georgia and Tennessee. The results of this remarkable growth have included increased convenience, as well as the ability to provide you with expanded banking services that are only offered by a select number of major banks.

As part of this ongoing expansion, First Union will be centralizing credit card and overdraft protection (Insu Cash Reserve) activities at First Union National Bank of Georgia beginning on June 1, 1988. This centralizat will result in all MasterCard, Visa, FirstChoice and Instant Cash Reserve accounts being transferred to Fir Union National Bank of Georgia. **This process will be done automatically and will require no actic on your part.** From June 1, 1988, going forward, the administration of all the above accounts will be hand by First Union National Bank of Georgia. This consolidation will result in centralizing the processing of cred card and overdraft protection accounts from all our banking subsidiaries in the Southeast.

As a valued First Union customer, you will continue to receive a superior level of customer service both throughout this transition period and in the future. If you have any questions concerning the transfer of you account(s), please contact a customer sales representative at 1-800-532-0364.

We appreciate your business and look forward to continuing to meet your financial needs in the future.

Sincerely,

Frank H. Dunn
Vice Chairman
First Union National Bank
of North Carolina

IMPORTANT NOTICE

Effective June 1, 1988, First Union National Bank of North Carolina is changing the application of payment provisions for MasterCard, Visa and FirstChoice accounts as follows

Application of Payments: We may choose at our sole discretion, the method of applying your payments and credits to your account.

North Carolina
Department of Commerce

ames G. Martin, Governor | Claude E. Pope, Secretary

27 July 1988

Mr. Terrence D. Sullivan
Director of Research
North Carolina General Assembly
Legislative Office Building
Raleigh, North Carolina 27611

Dear Mr. Sullivan:

I have enclosed the information about loan loss ratios which the Interstate Banking Committee requested in April. Sources for our research include Sheshunoff 1987 and the Uniform Bank Performance Reports (UPBR) for December 1984 and 1987.

This report does not include information for the last quarter of 1984 because it is not readily available to us. We cannot locate a copy of Sheshunoff 1984 which would have that information; however, the Committee could order a copy of this edition for $75.00.

Since our records were not on computer in 1984, neither can we report on state-chartered banks for that quarter without spending an inordinate amount of time checking the call reports manually. The 1984 UPBR cannot be used either because it does not distinguish national banks from state banks.

If you have questions or need additional information about this report, please contact Phyllis Stephens at 733-0573.

Sincerely,

William T. Graham
Commissioner of Banks

WTG/pas

Enclosure

RECEIVED

JUL 28 1988

GENERAL RESEARCH DIVISION

Office of Commissioner of Banks • William T. Graham, Commissioner
30 North Salisbury Street • P. O. Box 29512 • Raleigh, North Carolina 27626-0512 • Telephone 919-733-3016
An Equal Opportunity Affirmative Action Employer

	North Carolina State-chartered Banks	All Banks in North Carolina	NCNB National Bank
Non-performing loans to total assets:			
12-31-84	NA	.39%	.81%
12-31-87	[illegible]	.60%	[illegible]
Non-performing loans to total loans:			
12-31-84	NA	.91%	[illegible]
12-31-87	[illegible]	.86%	[illegible]
Net charge-offs to total loans:			
12-31-84	NA	.24%	[illegible]
12-31-87	[illegible]	.40%	[illegible]

	All Banks in Southeast *	All Banks in Nation
Non-performing loans to total loans:		
12-31-84	NA	2.32%
12-31-87	1.76%	2.37%
Non-performing loans to total assets:		
12-31-84	NA	NA
12-31-87	.87%	2.48%

* Southeast: TN GA FL [illegible]

First Union National Bank	Wachovia Bank, N.A.	Branch Banking and Trust Co.	Southern National	United Carolina
.45%	.40%	.84%	.30%	[illegible]
.40%	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	.42%	[illegible]
.24%	[illegible]	[illegible]	[illegible]	[illegible]
.19%	[illegible]	[illegible]	[illegible]	[illegible]
.11%	[illegible]	.34%	.10%	[illegible]

North Carolina
Department of Commerce

James G. Martin, Governor   Claude E. Pope, Secretary

March 28, 1988

M E M O R A N D U M

TO : Terry Sullivan
Director of Research, N. C. General Assembly

FROM : William T. Graham WTG
Commissioner of Banks

RE : Interstate Banking Study Commission Session (March 16, 1988)
Employment

I am sorry I was not able to be present at the meeting on March 16, 1988, as I could have very easily cleared up what appears to be a discrepancy between Tom Rideout's testimony of an increase in bank employment from 30,000 to 37,000 and my presentation that there does not appear to have been any increase.

Quoting from Rideout's written testimony, "Employment in our banking industry has grown strongly since the event of regional interstate banking. According to the final FDIC employment figures for 1987, total employment in North Carolina banking reached 37,289 compared with 30,627 at year-end 1983. This represents a growth of almost 22% over the four-year period."

Quoting from my written testimony, "So far, the direct effect of interstate banking on employment in North Carolina is difficult to determine. North Carolina banks have gone into other states, and as these banks become bigger, more persons are employed. However, the overwhelming majority of this employment probably is outside North Carolina. The indirect effect on employment brought about by interstate banking is that we have had a large number of new banks formed."

I have no doubt that employment in banking has increased during the 1983-1987 period and I will accept Tom Rideout's figure as correct. However, please note that he does not in any way say that this employment is a result of interstate banking. The increase in employment simply occurred during the same period that we have had interstate banking.

Office of Commissioner of Banks • William T. Graham, Commissioner
430 North Salisbury Street • P. O. Box 29512 • Raleigh, North Carolina 27626-0512 • Telephone 919-733-3016

I will willingly concede that interstate banking has created some increased employment in North Carolina. I refuse to believe that just because Wachovia is in Georgia and NCNB is in South Carolina and Florida, for example, that NCNB's and Wachovia's employment in North Carolina has increased appreciably. I would want to hear specifically from them that it has first.

Finally, if Tom Rideout did say that interstate banking had increased employment in North Carolina by some 7,000 I take solace in Professor Eisenbeis' statement wherein he urged the Committee, "to be very skeptical of any work claiming to identify the effects of changes in North Carolina law because a host of other financial market changes occurred at about that time." These market changes also had an effect on employment.

Obviously, employment in banks in general has increased as the figures I got together very recently show that the 13 completely new state-chartered banks which opened between January 1, 1985, and October 15, 1987, had an employment of 218. This is brand new employment. Also, each new branch, of which our state banks had 54 in 1987 alone, creates new employment.

NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE SERVICES OFFICE
2129 STATE LEGISLATIVE BUILDING
RALEIGH 27611

ORGE R HALL JR
ISLATIVE ADMINISTRATIVE OFFICER
EPHONE (919) 733-7044

GERRY F COHEN DIRECTOR
LEGISLATIVE DRAFTING DIVISION
TELEPHONE (919) 733-6660

THOMAS L COVINGTON DIRECTOR
FISCAL RESEARCH DIVISION
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M GLENN NEWKIRK, DIRECTOR
LEGISLATIVE AUTOMATED SYSTEMS DIVISION
TELEPHONE (919) 733-6834

TERRENCE D SULLIVAN DIRECTOR
RESEARCH DIVISION
TELEPHONE (919) 733-2578

MARGARET WEBB
LEGISLATIVE INFORMATION OFFICER
TELEPHONE (919) 733-4200

May 4, 1988

MEMORANDUM

TO: Terrence D. Sullivan, Director of Research

FROM: Sara Kamprath, Research Assistant

RE: The number of bank employees in North Carolina

Ms. Marie Blackwell of the Employment Security Commission provided the following figures for the number of bank employees in North Carolina.

1983	1984	1985	1986	1987
31,515	30,751	31,604	32,853	34,525 (1st quarter)

From 1985 to 1987, there was a 9% increase in the number of banking employees. The Employment Security Commission figures are for State Banks, members of the Federal Reserve; State Banks, not members of the Federal Reserve system and insured by FDIC; State Banks, not members of the Federal Reserve System and not insured by the FDIC; and National Banks.

I checked with Phyllis Stevens, special assistant to the Commissioner of Banks, about the FDIC figures for the number of bank employees. She gave me the following figures:

1983	1984	1985	1986	1987
30,627	32,369	33,611	35,410	37,289

These figures show an 11% increase in the number of bank employees from 1985 to 1987. For these figures, the term "bank" is defined in G.S. 53-1 as "any corporation, other than savings and loan associations, savings banks, industrial banks, and credit unions, receiving, soliciting or accepting money or its equivalent on deposit as a business." Ms. Stevens could give me

no reason for the discrepancy between the two sets of figures. Both figures should be the same as they are counting the employees of the same institutions.

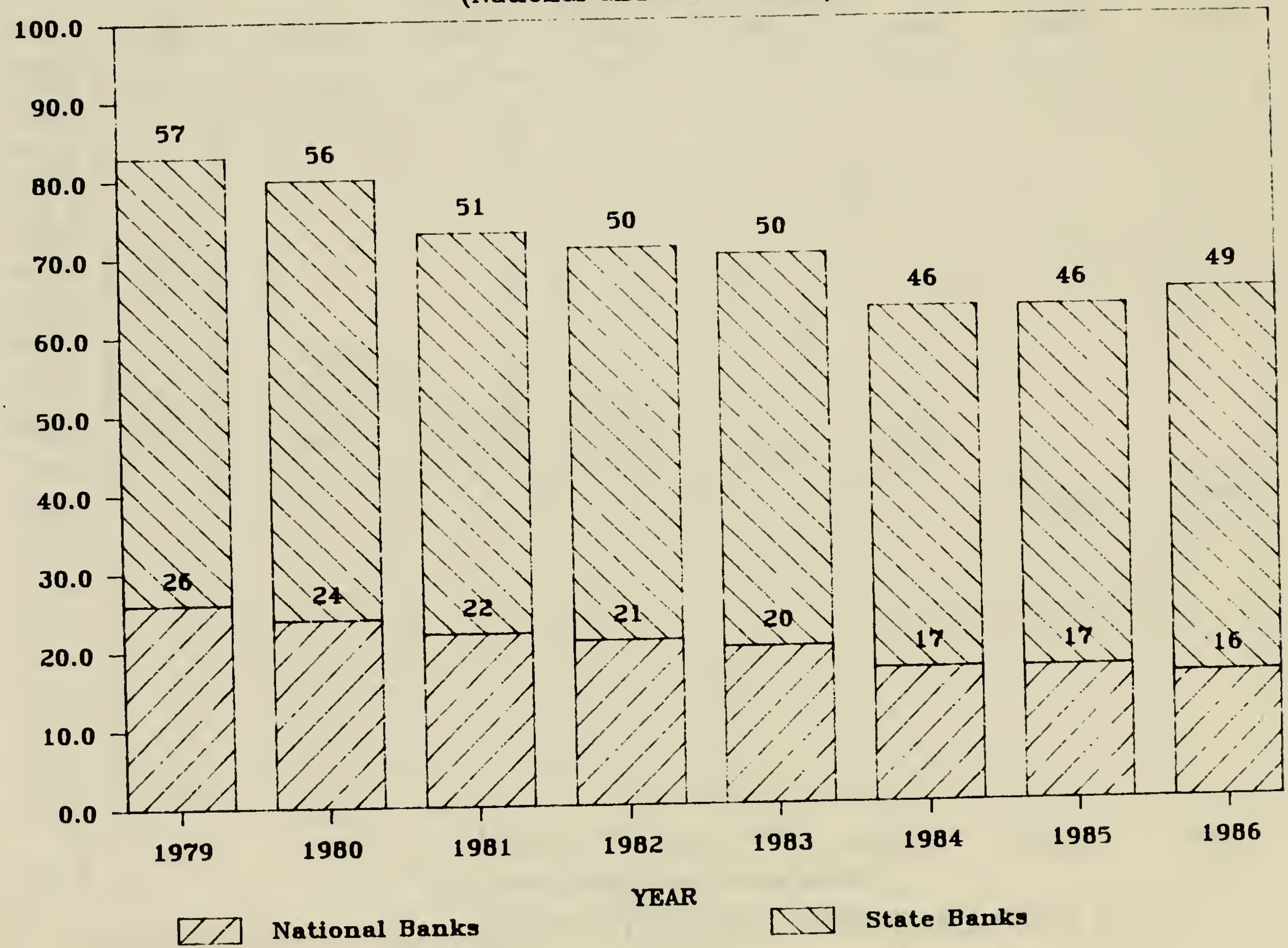
For your further information, the total number of North Carolinians employed during each of those years is shown below:

1983	1984	1985	1986	1987
2,674,000	2,828,000	2,953,000	3,024,000	3,130,000

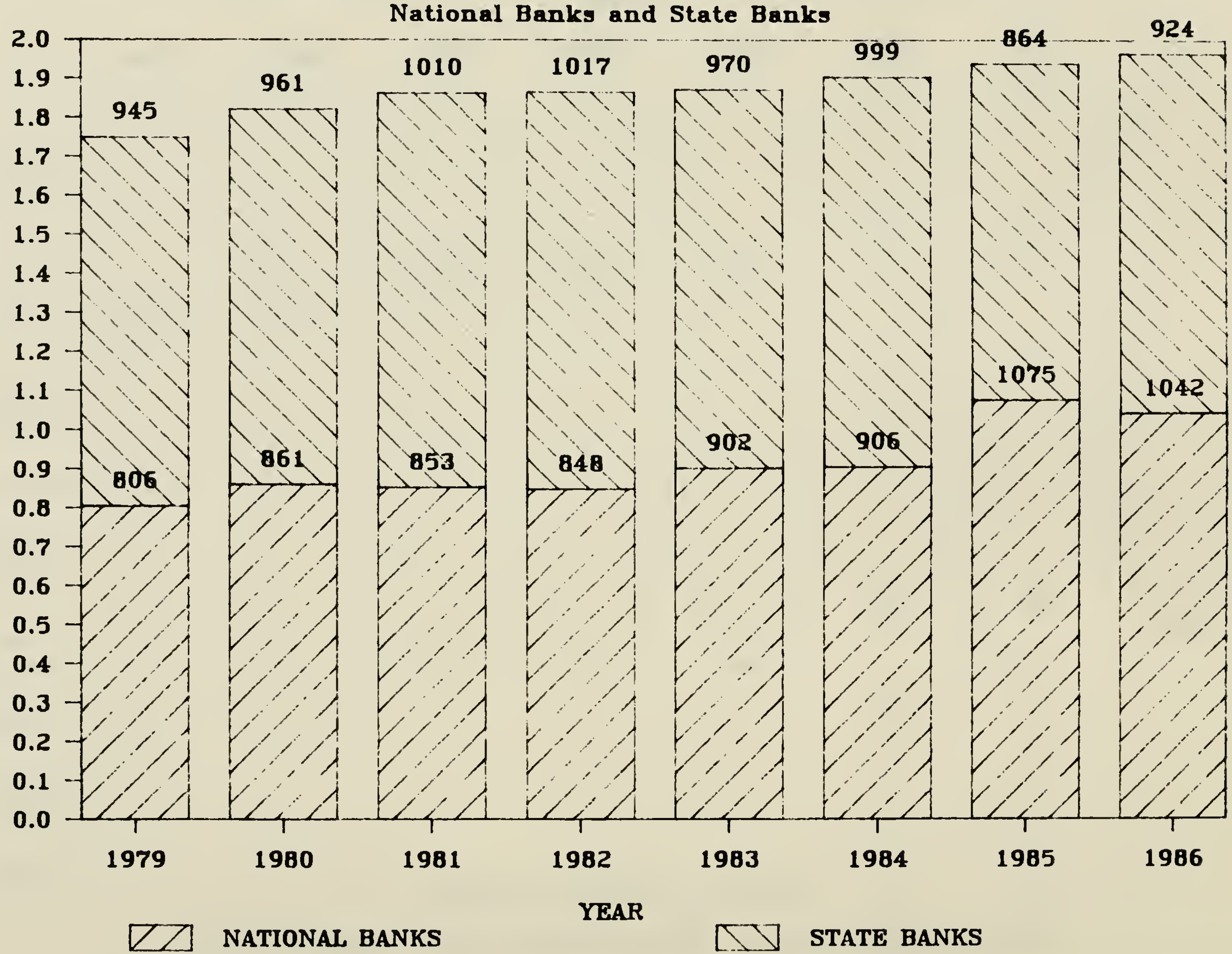
From 1985 to 1987, there was a 6% increase in the North Carolina workforce according to these Employment Security statistics.

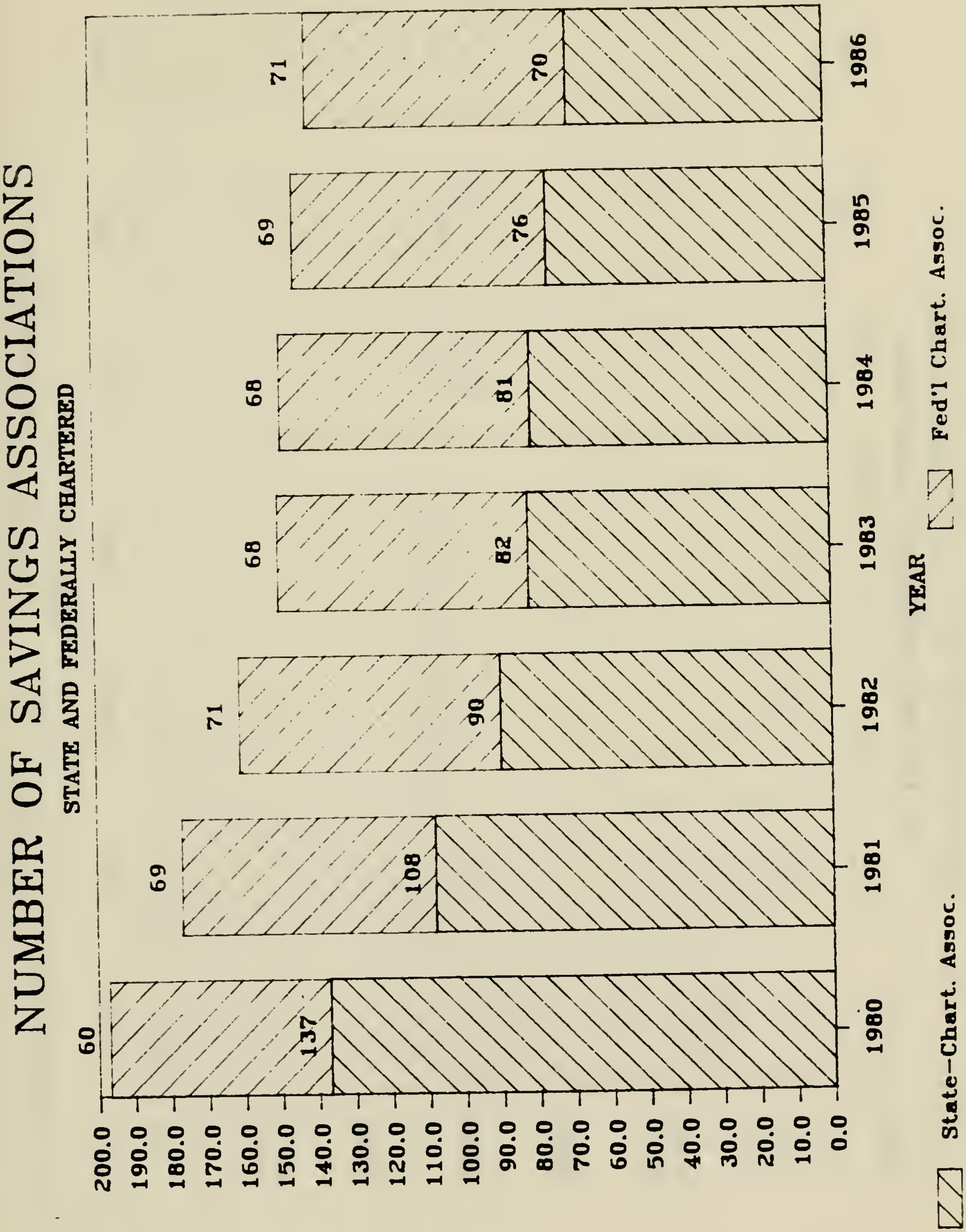
Number of Banking Institutions

(National and State Banks)

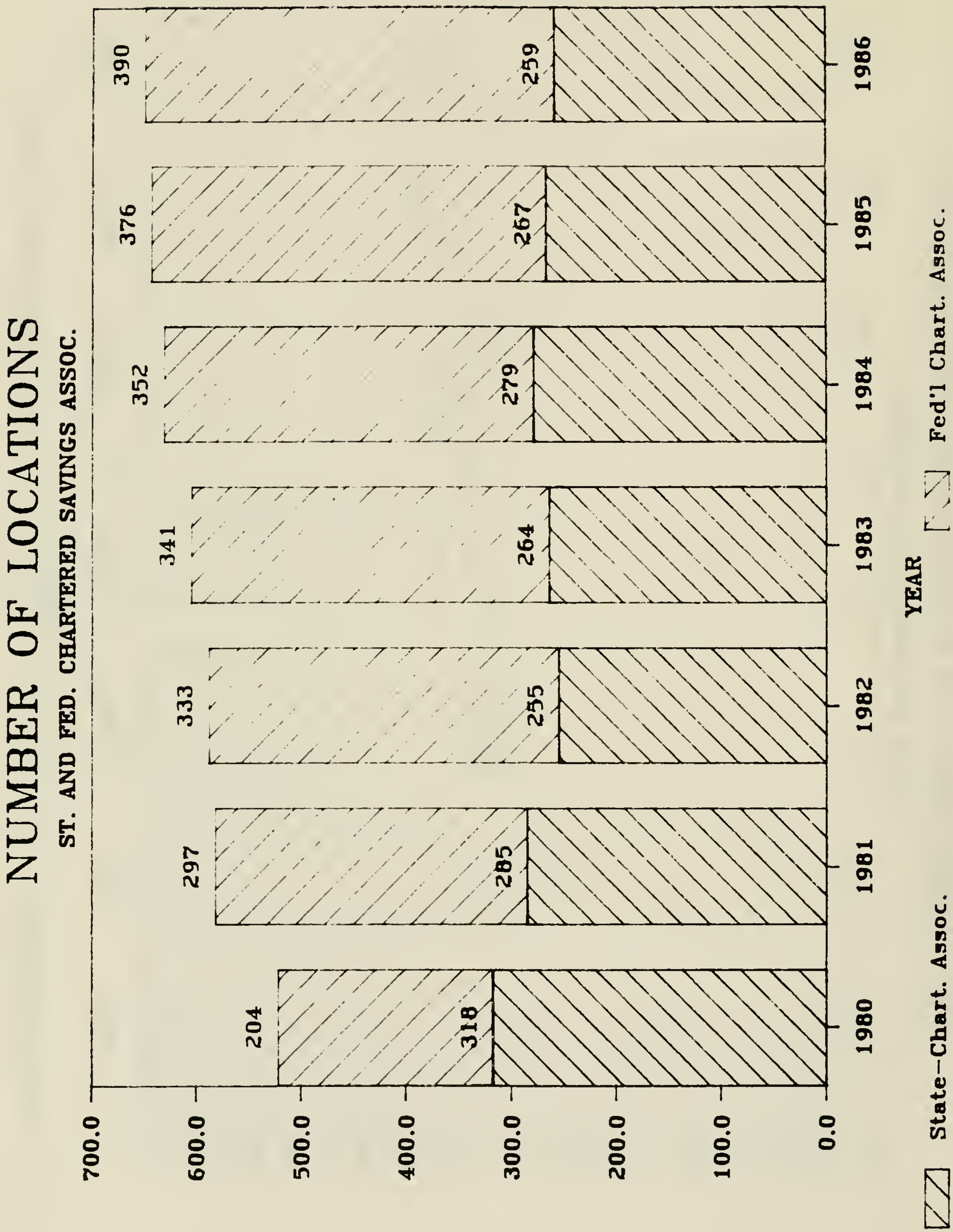


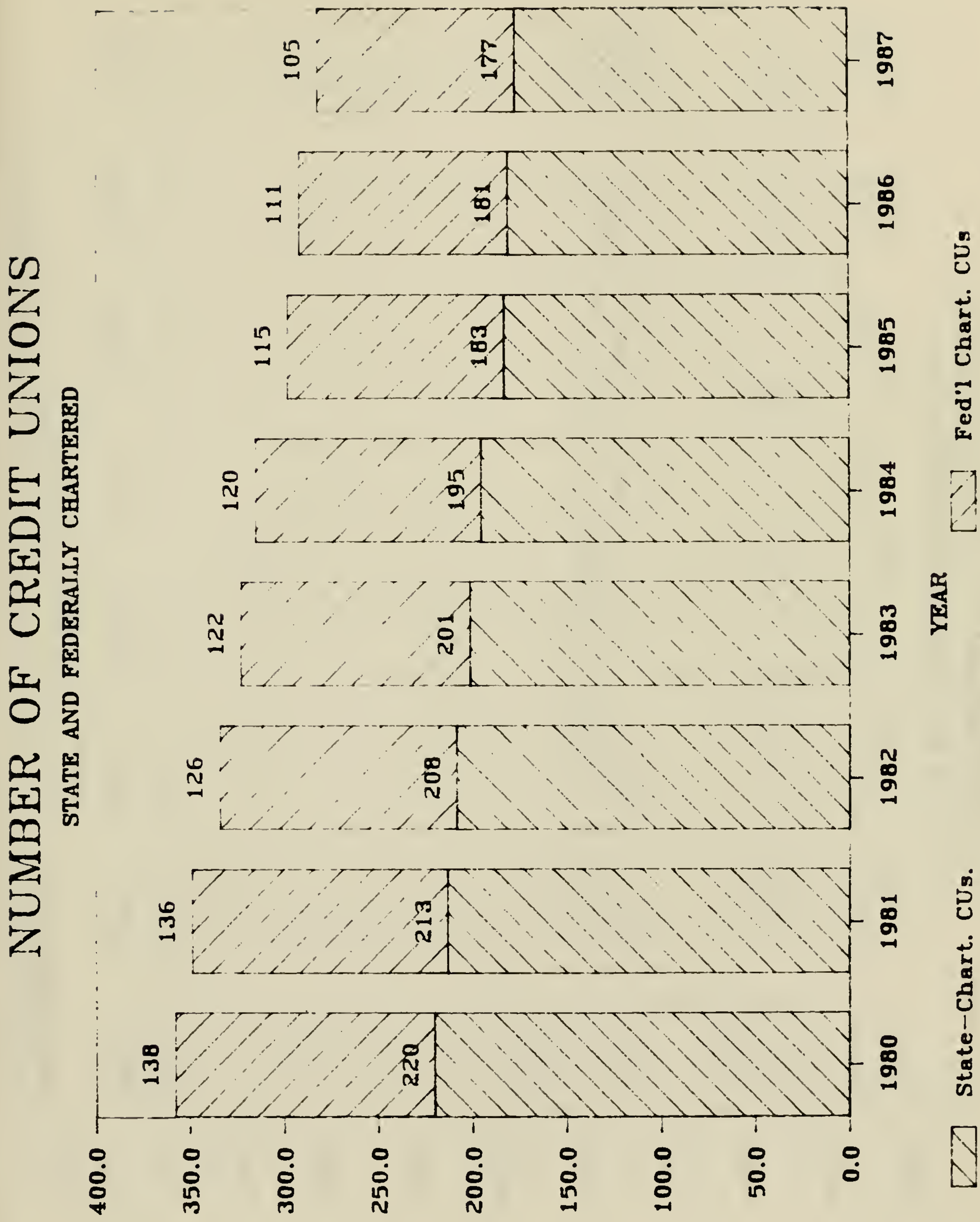
Number of Main Offices and Branches

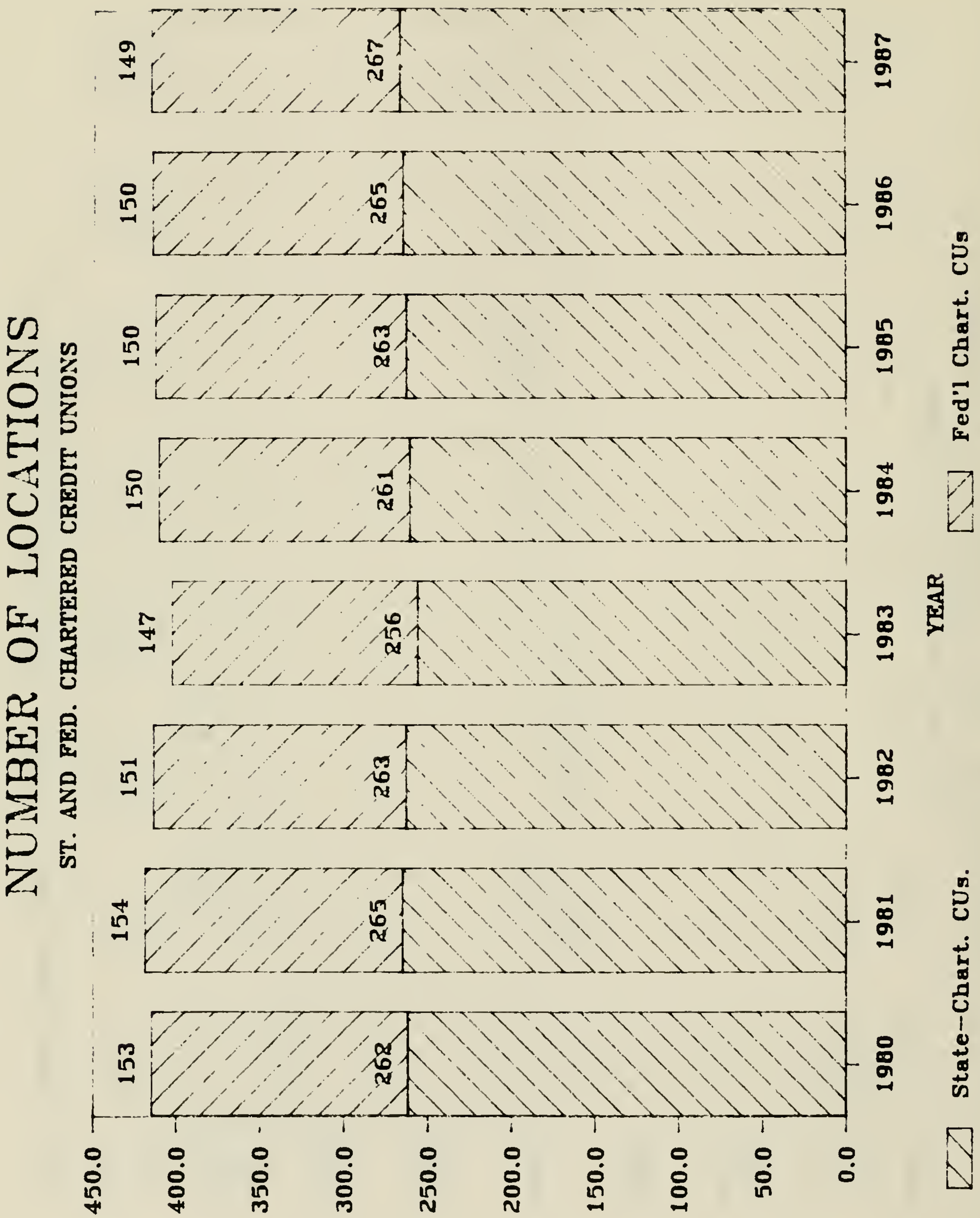




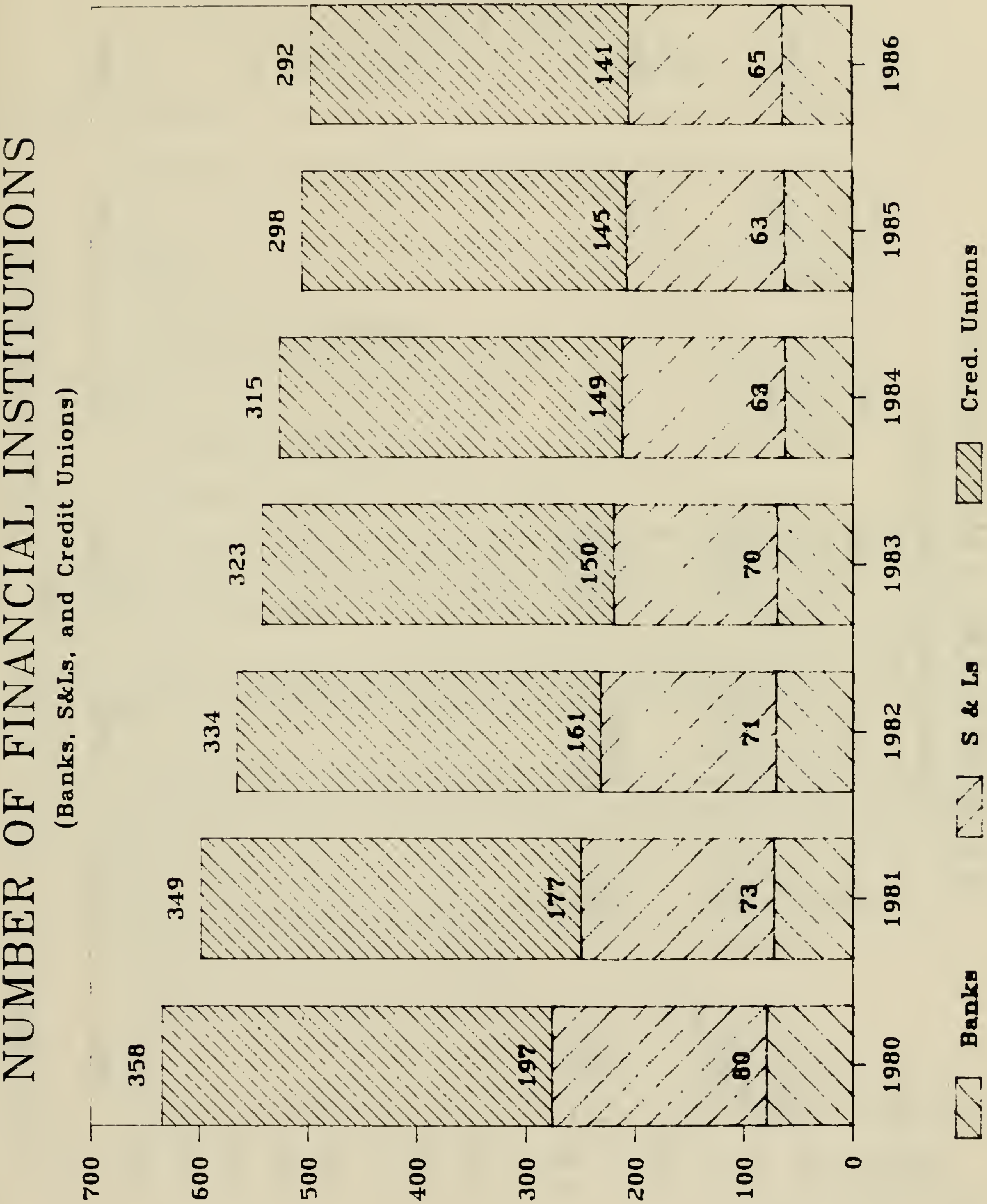
NUMBER OF SAVINGS ASSOCIATIONS
STATE AND FEDERALLY CHARTERED
200.0
190.0
180.0
170.0
160.0
150.0
140.0
130.0
120.0
110.0
100.0
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
60
137
69
108
71
90
68
82
68
81
69
76
71
70
1980
1981
1982
1983
1984
1985
1986
YEAR
State-Chart. Assoc.
Fed'l Chart. Assoc.


NUMBER OF LOCATIONS
ST. AND FED. CHARTERED SAVINGS ASSOC.
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
204
318
297
285
333
255
341
264
352
279
376
267
390
259
1980
1981
1982
1983
1984
1985
1986
YEAR
State-Chart. Assoc.
Fed'l Chart. Assoc.

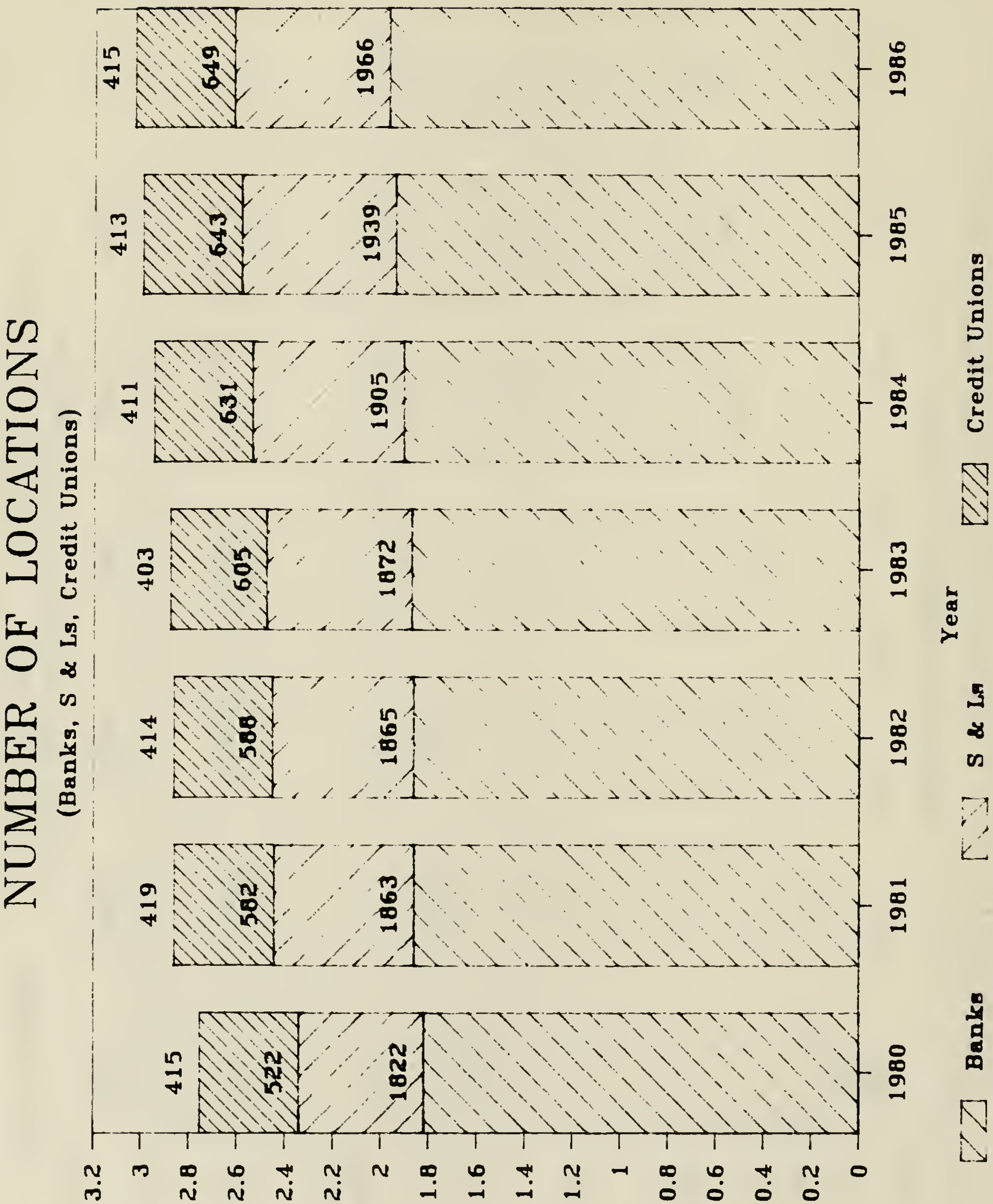

NUMBER OF CREDIT UNIONS
STATE AND FEDERALLY CHARTERED
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
138
220
136
213
126
208
122
201
120
195
115
183
111
181
105
177
1980
1981
1982
1983
1984
1985
1986
1987
YEAR
State-Chart. CUs.
Fed'l Chart. CUs


NUMBER OF LOCATIONS
ST. AND FED. CHARTERED CREDIT UNIONS
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
153
262
154
265
151
263
147
256
150
261
150
263
150
265
149
267
1980
1981
1982
1983
1984
1985
1986
1987
YEAR
State-Chart. CUs.
Fed'l Chart. CUs

TOTAL NUMBER OF FINANCIAL INSTITUTIONS
(Banks, S & Ls and Credit Unions)



TOTAL NUMBER OF FINANCIAL INSTITUTION LOCATIONS
(Thousands)



North Carolina
Department of Commerce

James G. Martin, Governor | Claude E. Pope, Secretary

28 September 1988

MEMORANDUM

TO: Terry D. Sullivan
Director of Research
North Carolina General Assembly

FROM: Phyllis A. Stephens PAS
Special Assistant

RE: 1988 Branch Openings and Closings

As you requested on 7 September 1988, I have compiled information on the number of branch openings and closings of all banks in North Carolina from 1 January 1988 through 30 September 1988. These statistics are listed on the enclosed chart.

While I can vouch for the accuracy of the state-chartered bank figures, the information for the national banks has come from various departments within each bank and has not been verified.

In addition to these statistics, you had requested additional information about the loan/loss ratios we had researched for you. I spoke to Sarah last Friday, and she said you had decided to postpone that project. I will not continue our research on these ratios until I hear from you.

In the meantime, if I can be of assistance to you or your staff, please do not hesitate to contact me.

CC: Commissioner William T. Graham

RECEIVED

SEP 30 1988

GENERAL RESEARCH DIVISION

Office of Commissioner of Banks • William T. Graham, Commissioner
430 North Salisbury Street • P. O. Box 29512 • Raleigh, North Carolina 27626-0512 • Telephone 919-733-3016

BRANCH INFORMATION FOR NATIONAL AND STATE-CHARTERED BANKS IN NORTH CAROLINA

1 January 1988 through 30 September 1988

BANK		OPENINGS	CLOSINGS	TOTAL NUMBER OF BRANCHES
State-chartered	(56)	47	10	940
National	(15)	24	22	1006
TOTALS	71	71	32	1946

North Carolina
Department of Commerce

James G. Martin, Governor Claude E. Pope, Secretary

October 31, 1988

Mr. Terrence D. Sullivan
Director of Research
North Carolina General Assembly
The Legislative Services Office
2129 State Legislative Building
Raleigh, North Carolina 27611-9184

RE: Interstate Banking Study Committee
November 16, 1988

Dear Terry:

We are pleased to enclose for the benefit of the Interstate Banking Study Committee a synopsis of our experience in working with the North Carolina Regional Reciprocal Banking Act (G.S. 53-209 et seq.) in connection with FHNB's proposed purchase of the MetroBank, N.A., in Charlotte. Together with this synopsis we enclose as Exhibits A through C proposed legislative changes which we believe are necessary after having undergone the first interstate application. The basis for these changes are fully explained in the synopsis.

Again, I regret that neither I nor members of my staff who work with these matters closely can be present for the Interstate Banking Study Committee's November 16, 1988, meeting. As you know, the Banking Commission is meeting that day in Asheville and has a full agenda. If, however, after reviewing any of this material you need any further explanation or if we may be of further assistance, please do not hesitate to let me know.

Sincerely,

William T. Graham
Commissioner of Banks

Enclosure

Office of Commissioner of Banks • William T. Graham, Commissioner
0 North Salisbury Street • P. O. Box 29512 • Raleigh, North Carolina 27626-0512 • Telephone 919-733-3016

COMMENTS OF THE
COMMISSIONER OF BANKS
ON
THE ADMINISTRATION OF THE
REGIONAL RECIPROCAL BANKING ACT

INTRODUCTION

The application of RHNB Holding Company, parent company of Rock Hill National Bank, to acquire MetroBank, N.A. located in Charlotte has given the Banking Commission its first working experience with the North Carolina Regional Reciprocal Banking Act. In general, the act has served the application process well, and only two technical changes are needed to improve the process of considering an interstate bank acquisition. These amendments involve additions to the confidentiality of records statute, G.S. 53-99(b), and publication requirements under G.S. 53-211. The reasons for these amendments and their benefit to the interstate acquisition process are discussed more fully below.

Also, in completing an application for an interstate bank acquisition, it is necessary to refer to the North Carolina Bank Holding Company Act of 1984. In examining this act more carefully, an amendment requiring bank holding companies which acquire directly or indirectly a nonbank subsidiary with North Carolina offices to register with the Commissioner of Banks would strengthen this law. This too is discussed more fully below.

REGIONAL RECIPROCAL BANKING ACT

(1) Although G.S. 53-99(b) currently provides for confidentiality of certain records compiled by the Commissioner of Banks during audits, examinations, or investigations, information obtained during the investigation of an interstate application is not specifically covered by this statute. The Commissioner of Banks proposes a new part (10) to G.S. 53-99(b) which would expressly provide for confidentiality of documents gathered during an interstate application process.

When the Banking Commission investigates an interstate application, it requests a variety of documents. These documents include (i) applications made to federal regulators such as the Federal Reserve Bank, Federal Deposit Insurance Corporation, and the Comptroller of the Currency; (ii) copies of the most recent regulatory examinations or reports as well as (iii) any comments that regulators offer our agency about the applicant. Because federal banking regulatory information is shared on the basis that it will be held confidential and our law does not specifically exempt it from public disclosure, some agencies are hesitant to share it with us. In light

of these circumstances, our records statute should be amended to provide for the confidentiality of this information.

In addition to federal regulatory information, the Banking Commission also requests biographical data and financial statements on all the applicant's current directors and officers and any proposed directors and officers of the acquired bank or bank holding company. These documents are personal and sensitive and in the opinion of the Commissioner of Banks should be afforded confidential treatment. Attached as Exhibit "A" is a proposed amendment to G.S. 53-99(b).

(2) North Carolina Banking Law in general requires publication of matters affecting the public. As currently enacted, however, G.S. 53-211 is inconsistent with this concept of public notice by failing to require publication of interstate bank acquisitions. This inconsistency can be resolved by amending G.S. 53-211 to include a publication requirement. Attached as Exhibit "B" is a proposed amendment to G.S. 53-211.

BANK HOLDING COMPANY ACT

G.S. 53-227 requires a bank holding company to register with the Commissioner of Banks. A bank holding company (i) which owns a North Carolina federally or state-chartered bank or (ii) which acquires control over a nonbank subsidiary with offices located in this state must register with the Commissioner within a required period of time. A loophole exists in the law because a non-resident bank, which is a wholly-owned subsidiary of a bank holding company, could purchase a nonbank subsidiary having an office in North Carolina and neither that bank, nor its parent holding company, would be required to register under the Bank Holding Company Act.

This situation creates a dual standard; therefore, the Commissioner of Banks recommends that it be resolved by requiring a bank holding company which "directly" or "indirectly" (meaning through its own subsidiary or affiliate) acquires control of a nonbank subsidiary to register with the Commissioner. Again, this amendment would prevent a bank holding company from circumventing registration by having its subsidiary purchase a nonbank subsidiary with North Carolina offices. Attached as Exhibit "C" is a proposed amendment to G.S. 53-277.

EXHIBIT "A"

PROPOSED DRAFT

AMENDMENTS TO THE NORTH CAROLINA BANKING LAW

REGARDING INTERSTATE BANKING ACQUISITIONS

G.S. 53-99(b) is hereby amended by adding a subpart (10) as follows:

"(10) Records compiled or received or any confidential information provided by a federal banking regulatory agency during or in connection with an application for an interstate bank acquisition under the North Carolina Regional Reciprocal Banking Act, Article 17 of this Chapter."

EXHIBIT "B"

PROPOSED DRAFT

AMENDMENTS TO THE NORTH CAROLINA BANKING LAW

REGARDING INTERSTATE BANKING ACQUISITIONS

G.S. 53-211 is hereby amended by relettering the current subsection (c) as subsection (d) and by adding a new subsection (c) as follows:

"(c) Notice stating the intent of a regional bank holding company to acquire a North Carolina bank or North Carolina bank holding company under subsections (a) or (b) of this section shall be published by the Commissioner in newspapers serving the communities wherein the principal office of the North Carolina bank or North Carolina bank holding company being acquired is located and the principal office of the regional bank holding company is located. Notwithstanding any other provision of this section, the application for acquisition shall not be approved until the requirement for publication has been met."

EXHIBIT "C"

PROPOSED DRAFT

AMENDMENTS TO THE NORTH CAROLINA BANKING LAW

REGARDING THE REGISTRATION OF BANK HOLDING COMPANIES

G.S. 53-277 is hereby amended by inserting after the word control on the sixth line thereof the following phrase "directly or indirectly".

OFFICE OF THE EXECUTIVE VICE PRESIDENT

NORTH CAROLINA BANKERS ASSOCIATION

P O BOX 30609 • RALEIGH, N C 27622-0609
919/782-6960 • 3709 NATIONAL DRIVE

A. C. FUQUA JR.
EXECUTIVE VICE PRESIDENT

DIANNE L. WILLIAMS
VICE PRESIDENT — ADMINISTRATION

EDMUND D. AYCOCK
VICE PRESIDENT GENERAL COUNSEL

December 2, 1988

The Honorable A. D. Guy
Cochairman
LRC Interstate Banking Study Committee
Room 2115
State Legislative Building
Raleigh, North Carolina 27611

The Honorable David H. Diamont
Cochairman
LRC Interstate Banking Study Committee
Room 610
Legislative Office Building
Raleigh, North Carolina 27611

Dear Senator Guy and Representative Diamont:

At the November 16 meeting of the LRC Interstate Banking Study Committee, Commissioner of Banks William T. Graham submitted for consideration to the Committee three proposed amendments relating to interstate acquisitions by banks. The North Carolina Bankers Association was requested by the Committee to state its position in regard to the proposed amendments (Exhibits A, B and C of Commissioner Graham's letter to Terry Sullivan, dated October 31, 1988).

The Association has reviewed the amendments proposed by the Commissioner and has no objections to their being recommended by the Committee to the General Assembly.

The Association appreciates the opportunity to participate in the proceedings of the Committee and to provide such testimony and information as the Committee may deem appropriate. If I can be of assistance to you or the Committee or provide any additional information or comments, please so notify me at your convenience.

With best wishes, I am

Sincerely yours,

Edmund D. Aycock

Edmund D. Aycock
General Counsel

eda:s

Remarks to the

COMMITTEE ON INTERSTATE BANKING

by

THOMAS E. McCLURE

ASSOCIATE DIRECTOR FOR ECONOMIC DEVELOPMENT

CENTER FOR IMPROVING MOUNTAIN LIVING

November 16, 1988

I have been asked to share with this committee my views concerning the impact of the Interstate Banking Act on, among other things, the distribution of commercial credit. I come at this topic as an economic development professional. I am the Associate Director for Economic Development at the Center for Improving Mountain Living. My responsibilities there include directing the Western Regional Office of the Small Business & Technology Development Center (SBTDC) and the Economic Development Administration University Center at Western Carolina University.

Our office is involved in a variety of business and economic development activities. One of our most frequent activities is preparing business plans and loan packages for small and medium sized businesses trying to start up or expand in the western 28 counties of North Carolina. We see many prospective deals over the course of a year, many of which are never financed.

This past spring, our center launched a project to involve people throughout the 17 western most counties of North Carolina in the development of a regional economic strategy. As part of this effort we convened a series of public forums across the region, in which about 400 people participated. These participants included business people and economic development professionals among others. At each forum we asked these people to identify and discuss those factors that limit economic development in the region. Consistently, limited access to business capital was among the most important constraints listed.

I can not prove to anyone's satisfaction that the difficulty of financing the start-up and expansion of small and medium sized businesses in western North Carolina is a result of banking deregulation. Access to commercial credit has long been a problem. I can say with conviction, however, that the interstate consolidation of banking institutions has exacerbated this problem. And this is a conviction shared by my counterparts throughout the state.

Rather than suggesting a change in policy concerning interstate banking, however, the point I want to make with you today is that those of us who are trying to improve access to commercial credit would be greatly aided by commercial lending disclosure by banks at the county level.

No research has effectively measured the impact of deregulation on the availability of commercial credit and on economic development. Theoretically, one would expect that consolidation of assets would improve the ability of banks to do development lending. And some research has documented the limited sophistication of small banks and the resulting constraints on the types of loans they can make.

For example, a study of commercial lending patterns in West Virginia, where most of the banks are small, found that the commercial loan products offered by smaller banks were more limited than those available through larger institutions.[1] Another study in Wisconsin concluded that small community banks have limited capacity to do the sophisticated types of lending needed to finance economic development.[2] Thus one could expect that by consolidating banking assets into larger institutions it should be possible to support more sophisticated lending. In addition, larger banks with more diversified loan portfolios spread over numerous and diverse markets should be in a position to take more risk than smaller banks operating in more limited

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[1] Boggs, Bruce S., David J. Sorenson and Andrew M. Isserman. Commercial Bank Lending Patterns and Economic Development in West Virginia. MACED. January 1988.

[2] Taff, Steven J, Glen C. Pulver and Sydney D. Staniforth. Are Small Community Banks Prepared to Make Complex Loans. University of Wisconsin, Madison. April, 1984.

local markets.

Experience in western North Carolina and elsewhere, however, suggests that the greater sophistication and capacity of large multistate institutions does not translate into improved access to small business credit. It appears that instead of shifting assets into small and medium sized business lending, the banks have shoved this lending, especially in rural places, further down their list of priorities.

There are a number of factors that could explain this phenomenon. First, the transaction costs of smaller loans are not significantly less than for large loans. In some cases, small business lending may be more costly to transact. Therefore, it is far more profitable for banks to concentrate their lending on a smaller number of larger loans.

Secondly, as banks gain access to rapidly growing urban markets it becomes easier to turn away from more rural markets that may be less dynamic and perhaps more difficult for them to understand. With markets that are expanding geographically, these institutions have ample opportunity to invest in larger deals that are easier for them to analyze.

A third factor that constrains rural and small business lending by large multistate banks is the centralization and

bureaucratization of the lending decision. Loan decisions that once were made by local officers in a matter of days or even hours now take weeks or months to work their way from the local setting to the decision maker at headquarters. Many small businesses choose to limp along undercapitalized rather than try to cut through the red tape involved in getting a loan.

Apart from the delays involved, unfamiliarity with local markets makes it difficult for an officer at headquarters to gain the comfort level needed to sign off on a loan from a distant place. Little comfort can be provided by the local loan officer, because that officer is a junior player whose judgement is not to be relied upon. Consequently, few loans are made for small and medium sized businesses trying to start up or expand in the rural areas of the state.

It is important for you to understand that I am not here today to tell you about the difficulty of financing bad deals. We are having trouble financing businesses that represent sound lending opportunities, and in many cases substantial developmental impact. In western North Carolina, difficulty of getting access to commercial credit is stifling development in economic sectors that are very important to our economy -- forest products, manufacturing, and travel and tourism. Here are some examples.

DIMENSIONAL LUMBER MANUFACTURER

Two entrepreneurs (one a former furniture plant manager proposed to lease a vacant plant and install new equipment to produce kiln dried dimensional stock for furniture companies. The deal would have created 45 new jobs within 12 months. Of the $953,000 needed for the project, the owners planned to inject $200,000. Several large banks were approached for financing. The only one that would even consider making the loan required that the owners inject 30 - 40% equity, which was more than the owners could invest. A more typical equity injection would have been 25%. To reduce their request to the bank, the owners arranged lease financing for the equipment. Nevertheless, the loan request was rejected.

DOWNTOWN REAL ESTATE DEVELOPMENT

A national real estate developer had initiated a multi-million dollar downtown redevelopment project involving several buildings key to the revitalization of downtown Asheville. The project, which has substantial regional impact, was well under way when the consortium of NC banks that had committed permanent financing for the project backed out. This turn of events forced the project to an abrupt halt and stalled it for over a year. Ultimately, the developer succeeded in securing permanent financing from the Bank of Scotland and construction financing from an institution in Florida and construction has been resumed.

FURNITURE MANUFACTURER

A group of investors proposed to purchase a closed furniture plant to reopen it and produce the same lines that had been manufactured there. The workforce and middle management were available, and a general manager, well known in the industry, was recruited. The $2.3 million proposed financing package included an employee stock ownership plan and commitments from the local business community. In addition, several local business people had committed to co-sign the note. The project would have re-established 200 jobs. The proposal was presented to four major NC banks. Only one of these seriously reviewed the application. It was ultimately rejected.

STEEL WHEEL MANUFACTURER

A manufacturer of automotive wheels wished to locate a new plant in western North Carolina to serve the growing automotive industry in the Southeast. Because no banks in North Carolina would finance the project, the plant located in Canada where the company received a very favorable financial arrangement.

SAWMILL

This project involved a proposed employee buyout of an operating sawmill that was being sold due to restructuring of a national company. The market for the product was strong, and would have involved export of hardwood lumber to Europe. Employees were willing to invest $500,000 in retirement funds

held by the parent company. The total financing package was $2.2 million. And the project would have saved 90 jobs. The project was proposed to three major NC banks. Only one of these made an effort to put the deal together. Financing did not appear likely and the project was aborted when the parent company received another offer, which later fell through. Ultimately a buyer from out of state bought the sawmill with financing from an out of state bank.

MANUFACTURER OF DISPOSABLE PRODUCTS

A minority entrepreneur presently manufacturing disposable products for use in hospitals proposed to expand the company in response to strong demand. The expansion would have created 20 new full time jobs. The entrepreneur has presented his proposal, requesting $200,000, to several banks. None have responded favorably.

PHARMACY

Experienced pharmacists in a small community proposed to open an independent drugstore. The entrepreneurs needed capital for leasehold improvements, fixtures, inventory and working capital. Inventory represented over half of the needed capital, and the supplier guaranteed buyback at 95%. Of the $85,000 needed, the owners were proposing to invest $15,000 in equity. Several banks have been approached. The only one that responded substantively said it considered the deal a "venture financing"

and therefore outside its lending policy.

EMERGENCY VEHICLE MANUFACTURER

This company produces ambulances by converting truck or van chassis. Sales this year are projected at $12 to $15 million. The company has experienced substantial and rapid growth and needed capital to finance this expansion. The entrepreneur requested $1 million from several major NC banks to finance inventory and receivables. None of the NC banks would finance the deal, saying the business was not profitable enough. A NC bank eventually referred him to a New England bank that in turn referred him to a nonbank commercial lender. Ultimately he succeeded at securing the needed funds from this out of state lender at an effective interest rate of about 19%.

CHAIN MOTEL DEVELOPMENT

A group of entrepreneurs proposed to develop a high-end chain motel in a community near Asheville. The development would have included 60 rooms and the feasibility analysis was favorable. The total financing would be $2 million, including an SBA 504 loan. Bank financing was proposed for only 50% of the total project value. The proposal has been presented to six financial institutions, and has been rejected by all of them.

MEDICAL SUPPLY MANUFACTURER

An entrepreneur needed $150,000 to expand his business,

which manufactures medical supplies for hospitals. He has 38 employees and needed to expand to meet strong demand for his products. He was unable to obtain financing from any NC bank, but a foreign bank with an office in NC did finance the project.

LOCAL MOTEL

A local entrepreneur, with a solid personal financial statement, purchased an old motel in a small town with a strong tourist trade. She sought $50,000 to repair and remodel the property. A proposal was presented, without success, to one major NC bank. The owner now is pursuing financing out of state.

CAMPGROUND FOR "GOLD WING" MOTORCYCLISTS

Western North Carolina attracts thousands of campers traveling on luxury motorcycles. A campground operator who presently caters to this market proposed to expand his facilities and build sleeping accommodations. He requested $70,000 for construction, with the loan to be secured by land. The proposal was submitted to several major NC banks. All of the banks rejected the application, because of the nature of the business.

LUMBER COMPANY

An entrepreneur proposed to purchase a local lumber company, the owner of which was retiring. The proposed $1.6 million financing package included an SBA 504 loan and a bank loan of $800,000. The project would save 16 jobs. Several banks and

savings and loans were approached, but all insisted that the retiring seller finance part of the deal. Consequently the sale has not occurred and the business is at risk of closing.

Our experience is not unique to the western part of the state. Throughout North Carolina local communities are encountering the same problems illustrated by the cases I have described. In response to these problems local business leaders across North Carolina are taking initiative to charter new community banks to address a part of the market that the interstate banks are ignoring. Since the beginning of 1986, 14 new banks have been chartered in North Carolina.[3]

Recent conversations with Presidents of several of these new banks revealed a common experience and motivation. In markets served only by large multistate banks, loan decisions were taking too long. High turnover among local personnel meant that business borrowers were frequently having to rebuild the banking relationship. Local borrowers were unable to get the kind of personal attention that the interstate banks reserved for their largest customers.

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3 NC Banking Commissioner

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[3] NC Banking Commissioner

conform to the standardized criteria used in the loan decision. This does not mean that they are not credit worthy. Yet, loan requests that do not satisfy those criteria are not likely to be financed without personal attention by an officer who can use judgement to override the rules. This certainly has been a problem in the mountains where we rarely get the opportunity to make an oral presentation. Instead the application is submitted and sometime later, usually several weeks, the applicant receives a rejection letter.

As new community banks are chartered around the state, we may see some improvement in access to capital for economic development. However, due to the small size of these institutions it is not reasonable to expect them to meet all of the credit needs of small and medium sized businesses trying to start up and expand around the state. With relatively small portfolios and local orientation, they will not be well positioned to bear risk. In addition, there will be limitations on the sizes of loans they can make, and probably on the types of loan products they can offer.

We expect that other interventions will be needed. The Regional Economic Strategy Project that I mentioned earlier is committed to improving availability of business capital in western North Carolina. A regional task force will be responsible for determining what specific interventions are

needed. We have great expectations about the potential of the newly established NC Enterprise Corporation and the new Microenterprise Fund pilot project initiated by the NC Rural Economic Development Center.

These initiatives may be very helpful. However, as we in the west try to advocate program policies to ensure that these initiatives meet our region's capital needs, we will need a better understanding of the present market for commercial credit. One of the greatest obstacles that our task force will face is the lack of information about commercial lending by banks.

The disclosure of commercial lending by banks would enable development of realistic interventions to address both perceived and real gaps in the capital market. It would reveal more clearly those gaps in the credit market that should be the target of statewide, regional or even local programs to provide development capital.

Presently, our only method for learning about unmet credit needs is the kind of hit or miss approach represented by the cases I have described to you. Like the blind men trying to identify the elephant by touching only parts of it, we are not able to see the whole picture. Disclosure of commercial lending would reveal the whole elephant, enabling us to respond with remedies that are comprehensive and appropriate.

An effective commercial loan disclosure policy would reveal the numbers of commercial loans in a variety of categories including size of loan, size of business, industrial sector of business, geographic location of borrower (i.e. county), and type of loan. Compliance should be encouraged through incentives. For example, the state treasurer could restrict deposits of state funds to those banks that voluntarily participate with disclosure that meets standards set by state policy. Other incentives may be appropriate as well.

CONCLUSION

Interstate consolidation and expansion of our banking system is essential to a globally competitive financial sector. However, the consolidation of banking resources into large institutions that are not oriented to lending to the small and medium sized businesses that are the backbone of our economy, leaves important credit needs unmet. To address these unmet needs, economic development practitioners need better information about present lending patterns. Commercial loan disclosure would be an important tool for providing this information.

TESTIMONY

by

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CENTER FOR COMMUNITY SELF-HELP
DURHAM, NORTH CAROLINA

Before the
NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE RESEARCH COMMISSION

on

INTERSTATE BANKING

10:00 a.m.
November 16, 1988

Good morning, Messrs. Co-Chairmen and members of the Commission. My name is Katharine McKee and I am the Associate Director of the Center for Community Self-Help. Thank you for inviting me to appear before you today to present our experience on the effects of interstate banking in North Carolina.

The Center for Community Self-Help is a Durham-based organization that was founded in 1980. We provide technical assistance and financing to create and save jobs, to extend housing opportunities to low- and moderate-income families, and to promote community development in North Carolina. In our efforts we concentrate particularly on low-income, minority, and rural communities and individuals.

In 1984 the Center created two financing vehicles to support its work. Self-Help Credit Union is a state-chartered, federally-insured credit union. From initial capital of $57 raised from a raffled cake donated by a minority-owned bakery that we had helped start up in New Bern, Self-Help Credit Union has grown dramatically and currently has assets of about $12 million. Our second financing affiliate is a $3 million non-profit revolving loan fund that makes higher-risk loans to small businesses.

We see our job as trying to meet those financing needs that are not currently being met by banks and thrifts, because they are perceived as too risky or too costly. Last year, we loaned roughly $4 million for low-income housing and job development. We thereby were able to save or create over 200 jobs and to stabilize another 700, primarily in rural communities. We also provided mortgages for over 100 low-income minority families, all first-time homeowners that had been denied loans elsewhere.

I welcome the opportunity to appear before you. The issue addressed by this Commission is vitally important, in light of the central roles played by banks in the health and survival of North Carolina's communities.

We are seeing the effects of interstate banking and deregulation of financial markets on a daily basis. Many of these effects are positive. Yet the increased size and geographic reach of banks, resulting from interstate banking, unfortunately has created new obstacles as well to the prosperity of the constituencies we serve and their communities. In the next few minutes, I'd like to share with you some concerns that my colleagues and I have about the consequences of interstate banking in North Carolina. We hope that you will seek to address these issues in your report and recommendations to the General Assembly.

We are concerned that the problems we are observing today will grow even more serious with the advent of national interstate banking in the not too distant future. The leader of one of North Carolina's largest banks recently stated that by the early 1990s, his bank hoped to be three times as large as it is currently and to stretch from North Carolina to California. Clearly this will bring some benefits to that bank and perhaps to North Carolina as a whole. But we feel it is also important that interstate banking not significantly worsen the plight of North Carolina's disadvantaged communities.

My presentation has three main points:

1) In many areas of North Carolina, significant gaps exist in the availability of credit for business development and housing. These gaps are widening. At least in part this is due to interstate banking and the restructuring of financial markets that has accompanied it, and to the creation of secondary markets for many types of loans.

These gaps should be of serious public concern, because they are hindering equitable development in many of the state's communities. The best ideas and leadership in the world cannot substitute for capital, and we've seen too many viable and much-needed projects and businesses fail because the right kind of bank financing was unavailable. Furthermore, there is reason to believe that these gaps will only get worse, as North Carolina banks get even larger by moving into Texas this year and into national markets in the 1990s.

2) We need more information about the specific nature and scale of bank and thrift lending in this state, so that we can better identify those credit gaps, determine if they are worsening as banks get larger, and seek to address them. In our view, it would be particularly useful to have information on commercial loans -- where they are being made, to which types of businesses, and for which loan purposes. Such information would serve the interests not just of public officials and regulators of financial institutions, but of depositors, borrowers, entrepreneurs, development organizations such as ours, and the banks themselves.

3) And finally, I would like to urge this Commission to consider how state public officials and regulators might be asked to analyze and use such information on lending patterns, if it were reported on a regular basis by financial institutions. One way to use it would be to promote and reward financial institutions that are making serious and sustained efforts to meet underserved credit needs. Another would be to identify those credit needs that banks cannot be reasonably expected to serve, so other remedies could be devised, such as public guarantee programs, equity pools, and the like.

It is important, in our view, to have these disclosure and incentive provisions firmly in place as soon as possible, so they can make it as attractive for North Carolina banks to invest in North Carolina as in Texas and California.

Credit Gaps -- Observations from the field:

In the course of carrying out our financing activities across the state, we are seeing two principal effects of banks increasing their size and geographic scope. The first is disinvestment from some rural areas -- that is, some bankable business, home mortgage, and consumer loans in North Carolina's rural areas and small towns are not getting made. We are also seeing an erosion in the availability of certain types of business loans, particularly small loans and loans to firms with strong track records and management but marginally inadequate cash flow or collateral.

The overall scale of these effects is impossible to judge, because the data are unavailable. Banks and thrifts are not required to disclose to the public their commercial or consumer loans in the same detail as their mortgages. But even though we are unable to quantify the aggregate impact of these changes in lending patterns, the changes are no less real, as should be evident from the testimony already heard this morning.

Drawing from our experience as a small, community-oriented lender, I'd like to briefly set forth some specific examples illustrating why we think that rural and small business disinvestment is occurring. Our experience suggests that interstate banking has had the following effects, each of which serves to reduce in some way the availability of credit to rural and small businesses:

a. First, it has accelerated the consolidation of financial institutions and increases in their scale. This in turn has tended to lead to more centralized decision-making about loans.

b. We are also seeing increased reliance by financial institutions on formula- rather than character-based lending criteria and decisions. And the formulas are becoming more conservative in some cases.

c. We are also seeing changes in staffing patterns in rural branches, in particular the cycling through of loan officers, who as a result have less familiarity with local economic conditions and entrepreneurs. Also, in some cases, we see evidence that the lending authority of local loan officers has been reduced as they have been acquired or as their bank has acquired others -- that is, they are expected to refer larger loans that they could once approve to headquarters for a final decision.

These three factors -- centralized decision-making, formula-based lending, and the move of loan officers from Murphy to Charlotte to Dallas and perhaps to Los Angeles -- is due in large part to the opening up of new opportunities across state lines and to the North Carolina superregional banks getting very big very fast.

The combination of these three factors in turn leads to more conservative lending practices and additional credit gaps. Why is this so?

It used to be the case that if a business loan application was "marginal" in terms of cash flow or collateral, the local banker could complement the quantitative financial analysis with more qualitative and subjective information. If he or she had been in the community for some time, for example, it would be possible to factor in the borrower's track record as a manager, technical expertise, previous repayment performance, or reputation around town. The banker could go visit the business and get a better feel for it than the numbers alone could show. He or she would also be be more likely to know the ins and outs of the local economy and those industries on which it relies. All of this additional information, which cannot be easily translated into ratios and figures, could help that banker determine whether it was likely to be a good loan or not.

With the rapid expansion and restructuring of the North Carolina banking industry, we can no longer count on this kind of crucial but subjective knowledge being brought to bear, as loan officers are recycled from one branch to another, as decisions are shifted to Charlotte or Winston, and as the "art" is removed from lending and is replaced by calculus. Yet in the absence of such subjective judgment, it only stands to reason that some good loans will be rejected and lending will become more conservative.

We are hearing from our clients that they are no longer able to get loans that local loan officers were once able to approve. For example, one of our potential borrowers, a successful 250-employee company located in a very rural area of the state, has seen its local bank acquired by one bank, and then the acquiror bought by a third bank. With each ownership change, lending to the company became increasingly based on formulas, with little regard to local economic conditions and the company's reputation.

Another of our borrowers, a manufacturing concern located in rural Eastern North Carolina, had credit facilities with two local independent banks. One was bought by a superregional and the other by an international financial institution. Following the ownership change, the firm's credit facilities were not renewed and it was turned down for future credit, even though there had been no previous repayment problems and the company's financial status had improved. We have had a very good lending relationship with this business for the past several years.

A final example comes from the West, where one of our staff referred an applicant, an existing service sector business with a good track record and good cash flow but weak collateral, to a newly acquired branch of one of the big banks in town. We felt it was an ideal candidate for an SBA guarantee, a service we were unable to provide. The local loan officer put the business owner together with a professional loan packager, reviewed and approved the package, and forwarded it to headquarters. Word came back that the loan had been turned down, with the explanation that the bank "didn't do that kind of loan anymore."

Possible other trends attributable to interstate banking include the following:

d. In some areas, there are fewer banks and branches, due to mergers and acquisitions, consolidation, and branch closings. As a result, local businesses have fewer opportunities to find a local lender.

e. Interstate banking permits North Carolina financial institutions to seek more profitable loans and market niches outside the state instead of focusing on in-state expansion in underserved areas. Given the choice, it makes sound economic sense for a large, sophisticated bank to pick expansion into California over expansion into Eastern North Carolina. Surely they cannot be faulted for this, but the legislature and the public needs to know the impact of their choices on North Carolina citizens and businesses.

f. We are also seeing evidence that some financial institutions are "cherry-picking," that is concentrating increasingly on the most profitable loans. We worry particularly about their decreased willingness to make smaller loans. One of my colleagues called one of the superregionals to inquire about a $30,000 loan to a successful small manufacturing firm with which we had been working. He was told by the loan officer that the bank didn't make business loans under $50,000, and was referred to the consumer loan division. It is unclear to us whether the loan application would have gotten appropriate analysis by a consumer loan officer who specializes in credit cards and car loans.

Especially in rural areas, we find there is a lot of demand for loans under $50,000 by existing, profitable firms. I'm not meaning to suggest that the banks are wrong not to make these loans, given the other opportunities they have elsewhere, but it poses a public policy problem when bankable but small deals are not getting done, and as a result, communities are not sharing in the prosperity as they might.

g. And finally, it is clear that interstate banking can lead to the diversion of the bank's management talent to newly acquired institutions in other parts of the region. This is especially problematic if their new acquisitions are troubled, as is the case with NCNB's recent Texas purchase.

Our financing roles

These are the problems we're seeing out in the field. We know that some of them are exacerbated by interstate banking. We created SHCU to try to fill some of the resulting credit gaps. But we are tiny and will never be able to meet even a smidgen of the overall demand. So one of the things we try to do is to demonstrate that certain types of loans can be made without sacrificing safety and soundness considerations. We hope that our experience might help other lenders to expand the range of loans they are willing to make. I should make it clear that SHCU does not make high risk loans. It cannot, because it is using its depositors money, and our federal insurers limit the risks we can assume. But we have identified a number of credit gaps that can be met, where the market currently overestimates the risks. Let me give you an example:

We did some research last year on how we might expand our home mortgage lending program in Durham. We went down to the County Court House to look up all the completed foreclosures that had occurred in Durham County the previous year. We compared that to the total number of outstanding home mortgages in the County. Clearly there is an exceptionally low default risk, and yet many families are unable to get mortgages. And clearly there's a huge gap here between what lenders can do and what they are doing to make home ownership possible for residents of the County. Reassured by this information, we have made over 100 mortgages to families that were unable to get home loans from other lenders. Our repayment experience has been excellent.

In this case the problem is exacerbated by the secondary market on which banks increasingly rely to resell the mortgages they originate. The secondary market sets standards from which lenders cannot deviate if they want to resell their loans. These standards create the same problems that formula-based lending does in the business loan examples I gave earlier. We have found, for example, that the single best predictor of whether a family is a good risk for a mortgage is their previous rental history -- yet this type of information is not weighted heavily in the formulas.

I am not wishing to suggest that the secondary housing market is a bad thing. On the contrary, it has made it possible for many lenders to greatly expand their home mortgage loans. The problem is that reliance on formulas, whether for business or home loans, screens out some creditworthy borrowers. And our experience suggests that this formula-based lending is on the rise, due at least in part to the structural and management changes accompanying interstate banking.

Ideas for the Commission to consider

In this and earlier presentations, you have heard some troubling examples of the effects of interstate banking within North Carolina. These are, of course, only examples, which brings me to what I think is the most important point of this testimony. We have virtually no information on which to base a detailed and careful analysis of all the positive and negative results of interstate banking. There is no source of comprehensive data available to the public on the changes that have occurred in patterns of lending and services in this state, as our banks have consolidated and bought up financial institutions all across the region.

To track pattens of residential mortgages in large cities, we have the data provided by banks to their regulators and the public under the Home Mortgage Disclosure Act, passed by Congress in 1975. This data has proven invaluable to citizens, community development groups, bank regulators and other public officials seeking to assess whether financial institutions are fulfilling their responsibilities to meet community credit and reinvestment needs in their service areas. And yes, the data have also proven useful to banks trying to see how they might develop appropriate, profitable new products and services. The availability of HMDA data has made possible a very fruitful dialogue between the public and the private sectors about better ways to meet housing needs. And contrary to the lenders' initial fears, the data have not been particularly expensive to collect and report. A report from the Federal Reserve Board estimated the average annual costs of HMDA compliance at $713 for the over 8000 reporting institutions.

But on the commercial side, that crucial information with which to initiate the dialogue is not available. This is because financial institutions are not required to report data comparable to HMDA on their commercial lending policies and practices. In recent years, a number of state and municipal governments have taken steps to remedy this, by passing laws and formulating rules that banks and thrifts report such information. It is important to understand that those laws and rules do not require financial institutions to change their lending patterns, merely to report them.

I would like to suggest that it might be wise to consider such steps in North Carolina. As the testimony offered today and last spring strongly indicates, dramatic changes are occurring in our financial services industry. And the change will come faster and on a larger scale with the opening of the Texas market this year and national markets in a few years' time.

How would commercial lending data be used? I can see a number of immediate uses to which this information would be put:

First, it would permit public officials, regulators, and the banks themselves to track the effects of interstate banking and other changes in the industry. Which areas and industries are receiving more or fewer loans and services? Which commercial credit gaps are being better addressed as a result of geographic expansion and consolidation? Are there markets in which increased competition has yielded lower-priced and more sophisticated banking services? Are there markets in which the opposite has occurred, and there is empirical evidence of the kind of rural and small business disinvestment to which the other speakers and I have referred? At this point, we just do not know in any systematic way. We can recount to you our experiences out in the field, but we have no way of obtaining and analyzing the hard data.

A second way in which such disclosure data could be used is to identify and reward those financial institutions that are especially active and creative in meeting the commercial credit needs of North Carolina communities in their service area. Other states and municipalities have used analysis of commercial lending patterns as one variable in determining which financial institutions should be eligible to receive public deposits, loan guarantees, and other privileges and powers.

A third use of such data would be to identify those credit gaps which are vital to the public interest, but simply cannot be met directly by the banks and thrifts, due to their regulatory and stockholder responsibilities. We heard a very good example this morning, that of the North Carolina Enterprise Corporation. Mezzanine financing was identified as a critical economic development need, but one that the banks could not address by themselves. The Enterprise Corporation permits the combination of public and private capital in a non-bank institution that can meet that need. Commercial lending disclosure would permit other non-bank lenders such as the Self-Help Credit Union, the SBA Certified Development Companies and the COG revolving loan funds that operate around the state to target those gaps that the banks cannot serve. It would let us identify particular areas and types of companies that are underserved.

Finally, and perhaps most compellingly, I believe that the depositors in banks and thrifts have a right to know how their money is being used, so they can decide where to put it.

Think of these public disclosure measures as giving depositors a Truth-in-Savings guarantee that parallels the Truth-in-Lending disclosures they receive when they borrow money. I am not suggesting that the banks should be forced to do things that they do not see to be in their own best interests. Lending in rural areas will always be higher cost than in cities, for example, due to the lower population density. But our banks are getting the considerable benefits of deposits from those same rural areas, and those rural depositors should be able to make an informed choice as to where they place their savings. I would guess that many rural citizens would prefer to see a substantial share of their funds reinvested in their community and region, and that they would weigh this variable along with others such as interest rates and service.

We have certainly found this to be the case. Self-Help Credit Union targets its lending to businesses, home mortgage programs, and community development projects that benefit underserved constituencies. We provide our borrowers with ample information about the loans we make, and we have found our reinvestment record to offer us a very powerful marketing tool in attracting new deposits. Our affirmative lending policies and practices constitute our principal competitive advantage.

These policies have proven to be good business for us. We feel that disclosure would help make it good business for North Carolina banks to continue serving the credit needs of North Carolina businesses and communities, as they expand their vision to the Gulf of Mexico, the Great Lakes, and the Pacific Ocean.

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Financing for North Carolina's Low-Income Communities

The Center for Community Self-Help, based in Durham, is North Carolina's only statewide community development organization that provides management assistance and financing to create jobs and housing in depressed areas. The Center's Self-Help Credit Union was this country's first statewide, private-sector financial institution focusing on economic development in minority and low-income communities.

Examples of the Center's 1987 Accomplishments

- Loaned more than $4 million for low-income housing and job creation.
- Used its financing to save or create over 200 jobs, and stabilize another 700 jobs, in rural communities.
- Provided mortgages for over 100 low-income minority families, all first-time homeowners, that had been denied loans elsewhere.
- Financed day care centers providing more than 100 children with affordable care.
- Financed businesses in all areas of the state. Examples include:
  An apparel factory in Bertie County owned by 60 minority women;
  A 125-person hosiery firm in Thomasville;
  A 300-person worker-owned recreational services company in Swain County.
- Developed and financed a multi-unit housing project for the elderly.
- Assisted minority credit unions in eastern North Carolina.
- Financed several church-sponsored programs for the homeless.
- Consulted with public entities on the design of low-income home-ownership programs.

The Center has been internationally recognized for its work. The United Nations selected the Center from among 2000 organizations as one of the 20 most successful economic development organizations in the United States. Both President Reagan's Policy Task Force on Capital Mobilization for Low-Income Communities and the Canadian Prime Minister's office have pointed to the Center's work as a model. Visitors from more than 30 foreign countries and 35 states have visited the Center and its projects.

413 E. Chapel Hill Street Durham, North Carolina 27701 (919) 683-3016

STATEMENT OF SERVICES

The Need

Despite overall improvement in North Carolina's economy since the Center for Community Self-Help (CCSH) was created in 1980, stagnation, structural underemployment, and plant closings continue to plague many communities. Low-income workers, minorities, women, and rural residents suffer disproportionately from the State's uneven development patterns. Coexisting with prosperous, growing communities are many in which secure and well-paying jobs, entrepreneurial opportunities, and affordable housing and day care are in short supply.

Yet important new opportunities are also apparent. In particular, the infrastructure of organizations engaged in community economic development activities is larger, more experienced, and more sophisticated than it was in the early 1980s. Demand has increased for responsive, development-oriented financing and technical assistance for business, community revitalization, and housing initiatives.

The Center for Community Self-Help

For the last eight years, CCSH has worked to create and stabilize jobs and housing in rural and urban North Carolina. Two critical barriers stand in the way of economic self-sufficiency for disadvantaged people and places: capital and management skills. CCSH has developed specialized capacities to address both problems.

Our financing division consists of three affiliates. **Self-Help Credit Union**, with federally-insured deposits and assets of over $8 million, makes secured loans. It serves the full range of small business and community development borrowing needs, focusing particularly on employee-owned companies, housing development, residential mortgages for low-income families, and projects sponsored by non-profit organizations. **Self-Help Ventures Fund**, with assets of over $1 million, provides higher-risk debt and equity financing to employee-owned companies and cooperative housing projects. The third affiliate, **Englewood Investment Corporation**, provides debt or equity financing for conversion to employee ownership of existing, larger companies. Its assets stand at $1.3 million. In 1987, CCSH financing affiliates made loans and commitments totalling almost $4 million.

Our technical assistance division complements the financing division by providing business, educational, and organizational assistance, primarily to borrowers or potential borrowers. On occasion it also provides project leadership, and engages in policy analysis required to carry out its work.

Since its inception, CCSH has assisted several dozen enterprises in both the manufacturing and service sectors. Real estate initiatives include a minority-owned shopping center, multi-unit housing for the elderly, mortgage programs for low-income housing authority residents, shelters and permanent housing for the homeless and battered women, and downtown revitalization efforts in Durham and Asheville. In 1987, projects supported ranged from an apparel factory in Windsor to a river rafting company in Swain County to migrant farmworker housing development in Smithfield.

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Fees for Financing and Services

While many of the loans made by our financing division are perceived as "too risky" by other financial institutions, interest rates and loan fees charged by CCSH are comparable to those of more traditional lenders. Fees for technical assistance and management consulting depend on the nature of the service, with rates starting at $25 per hour. Assistance to low-income groups, however, is based on ability to pay and the likelihood of project success. Inquiries from such groups are welcome.

Management Staff of the Center for Community Self-Help

Martin Eakes, Executive Director. Mr. Eakes, a co-founder of CCSH, holds a law degree from Yale, a master's degree from Princeton's Woodrow Wilson School of Public Affairs, and a BA from Davidson College. A nationally recognized expert on employee ownership and development finance, he also has extensive experience in business planning and management systems in a variety of industries.

Katharine McKee, Associate Director for Program. A graduate of Bowdoin College, Ms. McKee received a master's degree in international economic development from Princeton's Woodrow Wilson School. Previously she served with the Ford Foundation as an economist in its Field Office for West Africa and its Rural Poverty and Resources Program in New York. Responsible for overall program development, she is also part of the CCSH business advisory team.

William Bynum, Associate Director for Education. Mr. Bynum holds a degree in political science and psychology from University of North Carolina, where he served as an advisor to UNC officials on minority issues and chaired the UNC Black Student Movement. He has held various positions in community service, politics, and minority affairs. At CCSH, he is responsible for designing and implementing employee education programs.

Bonnie Wright, Manager, Self-Help Credit Union. Ms. Wright, a graduate of Davidson, has a masters degree in Public and Private Management from Yale, with an emphasis in finance. A co-founder of CCSH, she led the development of Self-Help Credit Union, which she now manages. Ms. Wright is experienced in feasibility studies, loan analysis and financial reporting systems.

Thad Day Moore, Operations Manager, Self-Help Credit Union. Mr. Moore holds a B.A. degree from Wake Forest. He previously managed a scrap metal company in Greensboro, and he has extensive experience as a business developer and finance manager for employee-owned companies. Currently he manages SHCU's operations and CCSH's finances.

Robert Schall, President, Self-Help Ventures Fund. After receiving a graduate degree in Regional Planning from the University of North Carolina, Mr. Schall served as an economic development specialist for the State and helped establish North Carolina's Community Development Block Grant program. He has also served as the financial manager for a regional food distributor. Mr. Schall assesses candidates for investment by SHVF and structures those investments.

David McGrady, President, Englewood Investment Corporation. Mr. McGrady is a graduate of King College and Harvard Law School. As an attorney with the Atlanta law firm of King and Spalding and with Simpson, Thacher and Bartlett in New York City, he worked on a variety of corporate finance projects, including leveraged buyouts, public offerings and bank financings. Mr. McGrady reviews potential investments by EIC and structures employee buyouts sponsored by CCSH.

Self-Help Mortgage Loans

What does Self-Help Credit Union look for when a person applies for a loan to purchase a home? The following list gives a basic idea of what the Credit Committee will consider in approving or denying a loan application.

Debt/Income Ratio: Income of the borrowers is large enough to cover the loan payment, utility costs, taxes and insurance on the house. All of these costs on a monthly basis generally should not exceed 30% of the Borrowers' monthly income. If you have charge cards or other installment debt, your monthly payments on all these loans plus your monthly housing costs listed above should not exceed 35% of your monthly income. If your monthly debt payments are higher than this amount, you should consider whether you have a friend or relative of yours who would be willing to co-sign the loan with you.

Credit Report: The Credit Union will order a credit report for all home loan applicants. If your credit report shows judgments, a bankruptcy, or a failure to stay current on your installment debt, you will probably need a co-signer who owns a home and has a good credit report before the loan can be approved. Credit report problems more than three years ago generally will not disqualify you from a loan.

*Down-Payment:*Twenty percent or more of the purchase price of the house is generally considered a reasonable down-payment. Unlike many banks, the Credit Union does allow you to borrow part of your down-payment amount from your friends and family. If you meet all the other requirements for a loan, but lack enough savings for a 20% down-payment, you may want to consider our Sponsored Home Loan Program, which requires a minimum of a 5% down-payment.

Appraisal: The Credit Union will order an appraisal of the value of the home you are purchasing. The Credit Union will generally make loans no greater than 80% of the appraised value.

Stability: Buying a home when other parts of your life are in a state of change is not a good idea. Generally, we will verify that you have worked at your current job and lived at your current address for at least one year.

The above guidelines are not hard and fast rules, but they cover 90% of the cases. If you have problems on only one of the requirements, try to find someone who will co-sign your loan. A strong co-signer with good income and a good credit history will strengthen just about any home loan application.

The Self-Help Sponsored Loan Program

The Sponsored Home Loan Program is a special effort by the Self-Help Credit Union to be of service to families who do not meet or are uncertain whether they meet the normal requirements for obtaining a home purchase loan. The "Sponsors" in this program are people that you find, who believe in you enough to co-sign your loan with you. You will have to find a few loan Sponsors who have owned their current homes for at least one year. The Credit Union will obtain a credit report and a signed financial statement showing personal assets and debts for each Sponsor. The goal of the Sponsored Home Loan Program is to shift some of the responsibility for evaluating your loan application to people who know you well.

Where can you find loan Sponsors? The most likely Sponsors will be parents or other relatives. Another likely group would be close friends you have known for many years from church or work. Sponsors can participate in one of the three following ways:

Share -Security Model: Two or three Sponsors agree, at the time the home purchase loan is made, to pledge as collateral money they put into special savings accounts at the Credit Union. These accounts, plus the borrower's down-payment (5% purchase price minimum), must equal at least 20% of the price of the home being purchased. Sponsors will earn interest on these savings accounts, but no money can be taken out of the accounts until the loan is paid off or until the borrower has paid on the loan for thirty-six consecutive months without **any** late payments.

Joint Note Model: One or more co-signers agree to be fully liable on the loan note with the borrower. These Sponsors will be responsible for payments if the borrower gets behind and for any losses the Credit Union suffers if it has to foreclose on the home. The Sponsors have to put up cash only if the borrower gets behind in his or her payments.

Limited Guarantee Model: This model is the same as the Joint Note Model, except that the borrower will have to obtain one Sponsor to provide a repayment guarantee for each $10,000 of loan amount that is requested.

A person could be a Sponsor for up to two additional borrowers, providing timely payments have been made on a previsously sponsored loan for at least one year before another sponsorship is begun. If the borrowing family defaults, neither the borrowing family nor any of the Sponsors can borrow or sponsor someone to borrow from the Credit Union. Moreover, failure to keep the loan current may result in a bad credit report for both the borrower and all of the Sponsors. Hence, asking someone to be a Sponsor and agreeing to be a Sponsor are very serious undertakings. In every case, the borrower must make a 5% cash down payment.

STATEMENT OF

TOM SCHLESINGER

DIRECTOR, SOUTHERN FINANCE PROJECT

TO

LEGISLATIVE RESEARCH COMMISSION'S

INTERSTATE BANKING STUDY COMMITTEE

RALEIGH, NOVEMBER 16, 1988

Mr. Chairman and members of the Committee, I am Tom Schlesinger, Director of the Southern Finance Project. The Project is a nonprofit research center located in Charlotte. It works with citizens groups, press and public agencies and officials around the Southeast who are interested in monitoring financial markets and institutions. We appreciate your asking the Project to present its views on the subject of interstate banking.

You've heard other speakers today describe some of the gaps that remain unfilled in North Carolina's financial marketplace, despite the ballyhooed arrival of regional interstate banking. I want to talk about another problem--the gaps in the information that is necessary for citizens, business owners, legislators, journalists and others to gain a full understanding of how our state's financial economy works and whether it is broadly serving the public interest.

The questions that your committee has posed are tremendously important to the wellbeing of the state. But without adequate information, it is probably impossible for you or any other group to arrive at accurate, careful answers to those questions. Our organization's experience is that, despite its importance, such information is not available.

Over the past couple of years, the Finance Project has conducted studies of banking trends in North Carolina for groups like Legal Services and the Rural Economic Development Center. We served as primary consultants to the Atlanta _Journal and Constitution_'s

pathbreaking 1988 investigative series on redlining. We've obtained government computer tapes that show every mortgage loan made by each federally-regulated lender in each urban census tract in the U.S. and tapes that show each SBA-assisted loan made in every southeastern zip code since 1982. We have extensive data on each of the biggest five dozen bank holding companies in the region.

We can show you that since the advent of regional interstate banking, First Union has maintained the lowest loan-asset ratio among the 15 biggest bank holding companies in the southeast; that in 1987, NCNB didn't make a single SBA 7a loan in its hometown (after averaging more than five per year between 1982-1985); that in 1987, Wachovia slipped behind its previously paltry levels by originating only 1.1 percent of its Mecklenburg County mortgage loan volume in predominantly black census tracts (together those tracts account for 21 percent of the county's population); that NCNB, First Union and Wachovia, between them, probably have at least a billion dollars in LBO loans outstanding; and that commercial bank lending to North Carolina agriculture has almost dropped out of sight in the past couple of years.

Most of us would probably agree that this is interesting information. But it's also piecemeal information. Despite the Finance Project's tapes and computers and files and diligence, that's about the best we--or most anybody else--can offer, given the limits of available data.

SBA loans only represent the tip of the iceberg of all lending to small business. Mortgage loans recorded in compliance with the federal Home Mortgage Disclosure Act (HMDA) likewise only amount to a fraction of all the residential real estate lending done in urban areas and tell us nothing about mortgage lending in rural counties. Information that finanical intermediaries disclose about themselves varies tremendously from case to case but it's almost always limited.

In a minute, I'll try to summarize why we think all this matters. But first I'd like to note that the need for good financial industry information will, if anything, only increase.

One reason, as Mr. Rideout told this committee last March, is that pressures are growing to establish a system of nationwide interstate banking. Today, North Carolina and the rest of the Southeast form the only contiguous area of states that have no provision to move to nationwide banking in the future. But NCNB's top managers have publicly indicated that they want the region to make such a move. Managers of other big southeastern financial institutions likely will follow suit.

If nationwide banking breaks down the South's protective wall, it will be tremendously important for North Carolina's citizens, financial regulators and other public officials to understand exactly how banks headquartered in our state are going about their business in New York, California or Minnesota. We will also need the ability to know what

Citcorp, Chase Manhattan, Security Pacific, First Chicago and other huge banks are doing with other people's money inside our borders.

Back in the spring, Mr. Rideout told you that when commercial banks lost their monopoly on financial information and the ability to analyze it, they also lost market share to new competitors in the financial intermediation process. That's true as far as it goes. But the logical question is: who can afford to take advantage of this wide-open access to information?

You can if you're a money market fund or a mortgage banker or if you're a company with a billion dollars in annual revenues that's wondering whether to do its next round of borrowing through banks or the commercial paper market. But if you're an everyday nonrich citizen trying to take out a mortgage or keep a small farm or small business going, the information revolution has done virtually nothing to benefit you.

If you're trying to decide where to put your savings, or if you're a cash manager trying to place public funds in a depository that has the best record of investing in your home community or county, you'll be shooting in the dark.

So with the need for better information growing all the time, let me offer a few examples of how the Interstate Banking Act could be improved so as to level the informational playing field.

1) Encourage financial institutions to make public regulatory agencies' assessment of their condition and enforcement actions taken on the basis of those assessments. Institutions could regularly provide standardized summaries of examination reports and any enforcement actions undertaken by state and federal regulatory agencies. This proposal was first made in the mid-1980s by the FDIC under the very conservative leadership of former Chairman William Issac.

2) Provide a standardized accounting of the distribution of mortgage, consumer and commercial and agricultural credit by geographic area and borrower type. Institutions would report: a) mortgage loan originations in non-MSA counties, using the HMDA disclosure format. Mortgage loans by all subsidiaries would be reported and identified by the originating subsidiary; b) the number, aggregate dollar amount and average size of consumer loans originated, sold and bought in each NC county (county data could be reported by census or zip code tract) in which the institution makes, sells or buys such loans; c) the number, aggregate dollar amount and average size of commercial loans originated, sold and bought in each NC county in which the institution makes, sells or buys such loans; d) the number, aggregate dollar amount and average size of commercial loans originated, sold and bought in NC for the following categories of enterprises identified by SIC numbers and amount of annual sales; e) the number, aggregate dollar amount and average size of agricultural loans originated, sold and bought in NC for farms identified by acreage and ownership form; f) the number, aggregate dollar amount and average size of commercial

and agricultural loans originated, sold and bought in each state other than NC; g) the number, aggregate dollar amount and average size of commercial and agricultural loans originated, sold and bought outside the United States; h) an analysis of the competitive impacts that the institutions' non-NC commercial and agricultural borrowers have on the state economy; i) the geographic location and SIC of clients to whom the institution has issued letters of credit, standby letters of credit and guarantees in excess of ten percent of the institution's legal lending limit; j) the (parent company) identity of financial institutions from which the NC institution has purchased and to which the institution has sold loans totaling in excess of ten percent of its legal lending limit and the SIC of the borrowers.

3) Amend the North Carolina Uniform Commercial Code (UCC) to require debtors and secured parties to record the dollar amount of indebtedness involved in their transaction and the value of collateralized assets when filing financing statements.

4) Encourage the U.S. Commerce Department to update its C404 forms to require detailed disclosure of financing sources for construction projects valued over $500,000.

5) Request the Federal Reserve System to tighten up its Regulation O in order to require detailed information about the parties and terms involved in insider lending by commercial banks.

6) Make public the sources and terms of financing for proposed buyouts, buybacks and restructurings of both publicly- and privately-held firms with a significant level of employment and annual revenues.

7) Make public standardized, transaction-by-transaction reports on institutions' trade finance activities.

It seems to us that there are at least five outstanding reasons why these kinds of information initiatives would be broadly beneficial to the public.

First, they would contribute to a stronger economy. Marketplaces with good information work better for all concerned than marketplaces with poor or restricted information.

Second, they would contribute to better government. As you know, decision-making at the state and local level--whether it's creating laws and ordinances or investing public funds--is only enhanced by access to more and better information.

Third, they're fair. Banks and other regulated financial intermediaries are uniquely protected institutions in this country. Banks, for example, receive the benefits of deposit insurance, access to the Federal Reserve's discount window and limits to competition (like regional forms of interstate banking and anti-trust exemptions). In return, banks and other regulated financial intermediaries are publicly chartered to uphold unique

responsibilities. Providing access to good information should be one of those responsibilities.

The banking industry is right when it contends that it shouldn't have to bear informational or regulatory burdens that disadvantage it in relation to other financial service competitors. We would like to see all segments of the financial services industry make public as much information about their operations as possible.

We also think that the widely varying ways in which banks and other intermediaries disclose operating information proves the point that much less data ought to be considered "proprietary" than is currently the practice. Examples of this abound. A good one is NCNB's laudable habit of reporting its commercial loans by industry segement. NCNB is the only major bank in the southeast that provides this useful information to the public and it obviously hasn't hurt the company's bottom line to do so.

Fourth, solid information requirements are in place in other jurisdictions. And they work. Maine, Massachusetts, Maryland, Michigan, Minnesota, Missouri, Nevada, New York, Ohio, Vermont, West Virginia, Wisconsin, the District of Columbia and several cities all have laws on their books that require financial institutions to provide extensive information on their activities to state or local agencies. Even Tennessee, a neighboring state with fewer governmental resources and a less illustrious history of public service provision

than North Carolina, requires the kind of UCC reporting I mentioned earlier.

Fifth, getting better information doesn't have to be expensive or administratively burdensome. For example, altering the C404 and UCC process in the way I've suggested is only a matter of adding a sentence or a few words to the existing printed forms and would not involve additional expense for the reporting parties or filing agencies. Some of the other measures I have mentioned would involve startup costs to geocode and categorize transactions. These costs, we think, would not be insurmountable and could, if necessary, be fairly shared by public agencies supervising financial activities. After all, any effort to instill more discipline in financial markets ultimately depends on more and more citizens effectively acting as an expanded corps of examiners.

Mr. Chairman and members of the Committee, financial enterprise has grown by leaps and bounds in North Carolina in recent years but none of these issues is really new. In 1810, the North Carolina House was discussing the establishment of the first state bank. During that debate, Representative William Drew of Halifax Borough told his colleagues, "The banks have secrets and mysteries which are not to be told. My God, Sir! Are the people of North Carolina not to know the secrets and mysteries of an institution within its bosom, which preys upon its vitals?"

We respectfully suggest that 178 years later, it is within your power to help North Carolina's citizens better understand the "secrets and mysteries" of our leading financial institutions. I hope that you will decide to do so by recommending that the Interstate Banking Act be amended to provide needed information to the people. Thank you again for the opportunity to express our views.

BANK HOLDING COMPANIES
LENDING DATA

[Ranked by Assets at 12/31/87]

SE Rank	Holding Company [lead bank(s)-assets]	Location	Loans [$000]	Loan/ Asset Ratio	Loan/Dep. Growth Rates	Sub-qual. Loan Ratio	AS % OF ASSETS AT LEAD BANK(S): All Loans	Comm./ Indus. Loans	Resid. R/E Loans	Indiv. Loans	Insi Loar [$00
1	NCNB Corporation	Charlotte	17,087,000	58.4	+ 8/+ 6	1.99	[a] 57.7	21.9	7.6	6.6	535,
	[a:NCNB of NC-16,069,411; b:NCNB of FL-9,814,551]						[b] 55.4	15.7	6.4	15.8	
2	First Union Corp.	Charlotte	15,388,000	55.7	+10/+ 2	1.19	[c] 53.9	12.8	17.1	7.1	48,
	[c:FUNB of NC-16,165,193; d:FUNB of FL-7,251,408]						[d] 44.8	10.8	7.9	9.0	
3	SunTrust Banks Inc.	Atlanta	18,410,000	67.7	+ 9/+ 6	1.10	[e] 59.4	26.0	3.2	10.5	85,
	[e:Trust Co. Atlanta-5,648,703; f:Sun Bank Orlando-3,648,014]						[f] 68.7	18.6	9.4	18.7	
4	Barnett Banks Inc.	Jacksonville	17,023,000	72.3	+14/+ 6	1.07	[g] 69.1	11.5	12.9	17.5	145,
	[g:Barnett Bank Miami-5,339,032; h:Barnett Bank Orlando-2,025,299]						[h] 79.4	7.9	12.9	38.0	
5	Sovran Financial Corp.	Norfolk	13,745,000	64.7	+12/+11	0.81	[i] 66.3	20.6	6.9	20.1	243,
	[i:Sovran Bank NA-11,888,101; j:Sovran Maryland-3,580,607]						[j] 64.2	19.1	10.3	9.3	
6	Citizens & Southern	Atlanta	12,996,000	63.4	+12/+ 7	1.12	[k] 64.2	22.2	6.7	13.9	n.a
	[k:C&S GA-11,672,964; l:C&S FL-4,913,451]						[l] 64.8	8.8	15.6	15.6	
7	First Wachovia Corp.	Winston-Salem	12,341,000	63.8	+ 5/+ 4	0.99	[m] 62.5	21.2	7.1	16.9	162,
	[m:Wachovia Bank & Trust-11,698,041; n:FNB of Atlanta-7,131,819]						[n] 64.2	18.1	6.6	19.2	
8	MNC Financial Inc.	Baltimore	11,570,000	67.9	+17/+13	1.85	[o] 61.7	19.3	4.3	10.2	224,
	[o:Maryland Ntl. Bank-9,514,696; p:American Security Bk-4,955,961]						[p] 63.3	16.0	4.5	5.1	
9	Southeast Banking Corp.	Miami	8,242,000	64.2	+10/+ 0	2.57	[q] 65.1	17.4	9.5	15.7	n.a
	[q:Southeast Bank NA-12,310,714]										
10	Signet Banking Corp.	Richmond	6,760,000	63.1	+13/+14	2.20	[r] 58.7	15.3	5.4	22.0	83,
	[r:Signet Bank VA-7,112,450; s:Signet Bank MD3,230,594]						[s] 68.0	20.0	7.2	12.9	
11	Crestar Financial Corp.	Richmond	7,332,000	75.3	+12/+ 5	1.03	[t] 78.3	22.7	9.1	24.9	103,
	[t:Crestar Bank VA-8,660,675]										
12	First American Corp.	Washington	5,841,000	60.4	+34/+30	1.07	[u] 63.7	19.5	13.4	11.1	194.
	[u:First Am. Bnk NA-1,802,098; v:First Am. Bnk of VA-3,170,790]						[v] 67.3	22.9	7.9	15.4	
13	Dominion Bankshares	Roanoke, VA	5,386,000	70.8	+18/+ 6	0.98	[w] 58.2	12.8	13.8	12.6	146.
	[w:Dominion Bank NA-3,710,622]										
14	Florida Ntl. Banks	Jacksonville	4,507,000	59.6	+ 1/+ 2	2.71	[x] 60.1	13.5	6.0	16.5	38,
	[x:Florida Ntl. Bank-7,494,704]										
15	AmSouth Bancorporation	Birmingham	4,912,000	65.2	+20/+20	1.60	[y] 65.2	25.6	12.0	12.4	118,
	[y:AmSouth Bank NA-6,276,255]										
	U.S. PEER GROUP		1,874,953,968	59.2	n.a.	2.43					
	ALL SOUTHEASTERN BANKS		422,996,486	56.8	+14/+ 7	1.01	56.8	8.6	14.0	13.2	

DEFINITIONS & NOTES: Loan/asset ratio=total loans & leases as a percentage of total assets; Loan/Deposit Growth Rates=percent change in loan/lease and deposit levels from 12/31/86 to 12/31/87; Sub-quality loan ratio=non-performing loans & leases as pct consolidated year-end loans & leases; Loans as Percent of Assets at Lead Banks=the following as a portion of total loans and leases at designated lead bank subsidiaries: all commercial and industrial loans; real estate loans secured by 1-4 family and multi-family residential properties; and consumer loans for household and other personal expenditures; Insider Loans=total loa to directors, executive officers and individuals and organizations related to them. U.S. Peer Group=52 U.S. BHCs with assets more than $10b; All SE Banks=all(1939) commercial banks in AL, DC, FL, GA, MS, NC, SC, TN, VA, WV. All data for 12/31/87.

SOURCES: <u>Depository Institutions Performance Directory: Bank Holding Companies, 1987</u>; <u>Business Week</u>, April 4, 1988; annual reports and proxy statements for 1986 and 1987.

BANK HOLDING COMPANIES
(Ranked by Assets at 12/31/87)

SE Rank	Holding Company (parent company)	Location	Assets ($000)	Return on Assets	Mkt. Value ($ mil) US Rank	Primary Capital Ratio	% OF PRIMARY CAPITAL: Common Equity	% OF PRIMARY CAPITAL: Intangibles	% STOCK HELD BY: Inst. Invests.	% STOCK HELD BY: Biggest Inst. Invests.	U.S. Rank
1	NCNB Corporation	Charlotte	29,238,618	0.59	1691/19	6.22	80.1	24.0	49%/163	37%/24	18
2	First Union Corp.	Charlotte	27,629,481	1.07	2291/10	8.01	79.8	15.1	41%/182	26%/23	19
3	SunTrust Banks Inc.	Atlanta	27,187,889	1.08	2850/ 5	7.15	85.2	9.9	39%/154	26%/18	20
4	Barnett Banks Inc.	Jacksonville	23,451,199	0.87	1981/16	7.81	68.7	18.5	54%/220	35%/27	25
5	Sovran Financial Corp.	Norfolk	21,233,490	1.05	1937/17	7.44	75.6	8.5	33%/138	19%/15	29
6	Citizens & Southern	Atlanta	20,493,844	0.81	1506/24	7.16	70.3	17.0	47%/121	34%/20	31
7	First Wachovia Corp.	Winston-Salem	19,342,241	0.94	2053/12	7.94	79.2	3.3	44%/160	31%/21	33
8	MNC Financial Inc.	Baltimore	17,033,307	0.94	1167/33	7.08	73.1	0.0	45%/129	31%/23	36
9	Southeast Banking Corp.	Miami	12,842,237	0.30	723/44	8.02	58.0	12.8	60%/ 94	49%/31	42
10	Signet Banking Corp.	Richmond	10,719,220	0.23	767/40	6.78	66.1	7.4	35%/ 85	24%/19	48
11	Crestar Financial Corp.	Richmond	9,739,662	0.58	708/46	8.12	66.8	13.2	39%/ 61	33%/20	54
12	First American Corp. (Credit & Commerce American Holdings Ltd.-Netherland Antilles)	Washington	9,673,844	0.47	n.a.	7.80		privately held			55
13	Dominion Bankshares	Roanoke, VA	7,601,803	0.94	634/53	8.22	72.3	11.1	29%/ 58	22%/12	64
14	Florida Ntl. Banks	Jacksonville	7,555,878	0.44	378/85	8.53	71.8	9.7	37%/ 63	30%/15	65
15	AmSouth Bancorporation	Birmingham	7,532,561	0.82	621/56	7.25	74.2	14.9	25%/ 58	19%/11	66
U.S. PEER GROUP				0.31	n.a.	7.59	77.4	6.9	n.a.	n.a.	
ALL SOUTHEASTERN BHCs				0.84	n.a.	7.69	82.7est	0.0	n.a.	n.a.	

DEFINITIONS & NOTES: Return on Assets=consolidated net income as a pct. of total assets; Market Value=share price on 3/11/88 multiplied by common shares outstanding/rank among all U.S. BHCs; Primary Capital Ratio=total primary capital, as defined by the Federal Reserve Board, as pct. of consolidated assets plus loan/lease loss reserve; Common Equity as Percent of Primary Capital= portion of primary capital composed of equity held by owners of common stock; Intangibles as Percent of Primary Capital=portion of primary capital composed of goodwill and other intangibles; Percent of Stock Held by Institutional Investors=portion of all common stock held by all institutional owners/number of inst. owners; Percent of Stock Held by Biggest Institutional Investors=portion of all common stock held by institutional owners of more than one-half of one percent total shares outstanding/number of big inst. owners. U.S. Peer Group for ROA and ratios=52 U.S. BHCs with assets of more than $10b; U.S. Peer Group for primary capital components=194 major BHCs surveyed by Keefe, Bruyette & Woods, Inc.; All Southeastern BHCs= All (726) BHCs in AL, DC, FL, GA, MS, NC, SC, TN, VA, WV.
All data for 12/31/87 except for 6/30/87 data on equity and intangibles' share of primary capital.

SOURCES: Depository Institutions Performance Directory: Bank Holding Companies, 1987; Keefe BankReview, "The Best and Worst Capital Structures," 11/5/87; Southern Finance Project DataBase on Institutional Stockholdings; Business Week, April 4, 1988.

BANK HOLDING COMPANIES
SOURCES OF SUPER-REGIONALS' DEPOSITS

[Share of Total Bank Deposits in States Where Bank has Full-Service Operations]
[Ranked by Deposits at 12/31/87: $ mil]

Holding Company [other states]	Total Deposits	AL	DC	FL	GA	MD	NC	SC	TN	VA
SunTrust Banks Inc.	22,493.3			11,122.5 11.3%/#2	6607.5 15.1%/#2				4847.6 13.2%/#2	
Barnett Banks Inc.	20,167.2			19,762.5 20.1%/#1	404.7 x					
NCNB Corporation	19,550.0			6803.1 6.9%/#4	108.8 x	250.6 x	10,585 19.2%/#1	1852.9 11.9%/#3		17.1 x
First Union Corp.	17,860.3			5685.1 5.8%	3673.5 8.4%/#4		8061.1 14.6%/#3	908.1 5.8%/#4	7.3 x	
Sovran Financial Corp. [DE, KY]	16,666.8		541.1 3.5%			2778.8 7.2%/#4			3483.6 9.5%/#4	9743.6 19.5%/
Citizens & Southern	15,189.7			4284.5 4.4%	8124.1 18.5%/#1			2816.3 18.1%/#2		
First Wachovia Corp. [DE]	14,341.9				5048.8 11.5%/#3		9140.3 16.6%/#2			
MNC Financial Corp. [DE]	11,240.8		3651.9 23.8%/#2			6830.9 17.8%/#1				
Southeast Banking Corp.	9,518.1			9518.1 9.7%/#3						
First American Corp. [NY]	7,662.6		1457.9 9.5%/#4		1200.4 2.7%	981.4 2.6%			362.4 x	2639.8 5.3%
Crestar Financial Corp.	7,625.2		784.0 5.1%/#5			166.4 x				6609.1 13.3%/
Signet Banking Corp.	7,356.3		261.9 1.7%			2284.7 6.0%				5238.5 10.5%/
Florida National Banks	5,949.5			5949.5 6.1%/#3						
Dominion Bankshares	5,819.1		87.0 x			197.9 x			1078.9 2.9%	4598.4 9.2%/
AmSouth Bancorporation	5,731.3	5093.5 18.7%/#1		638.7 x						

[Other States]=additional states where BHC has full-service operation
x=less than one percent of total bank deposits in state
#:1-5 deposit rank among BHCs in state (if among top 5)
Sum of state deposits may not equal BHC totals due to rounding or source discrepancies

SOURCES: <u>Depository Institutions Performance Directory: Bank Holding Companies, 1987;</u> <u>Rand-McNally Bankers Directory: First 1988 Edition</u>; 1987 annual reports

BANK HOLDING COMPANIES
SUBSIDIARY BANKS BY STATE

NCNB Corporation-Charlotte

NCNB National Bank of NC-Charlotte
NCNB National Bank of SC-Colubmia
NCNB National Bank of Florida-Tampa
NCNB National Bank-Atlanta
NCNB Virginia-Dumfries
CentraBank-Baltimore

First Union Corporation-Charlotte

First Union Ntl. Bank of NC-Charlotte
First Union Ntl. Bank of SC-Greenville
First Union Ntl. Bank of FL-Jacksonville
First Union Ntl. Bank of GA-Atlanta
First Union Ntl. Bank of TN-Nashville

SunTrust Banks Inc.-Atlanta

Trust Company Bank-17 separate banks in GA
Sun Bank-20 separate banks in FL
Third Ntl. Bank in Nashville-Nashville
Third Ntl. Bank in Knoxville-Knoxville
Third Ntl. Bank in Anderson Cty-Lake City
Third Ntl. Bank in Sevier Cty.-Sevierville
American Ntl. Bank & Trust Co.-Chattanooga
Hamilton Bank of Upper East TN-Johnson City
Hamilton Bank of Morristown-Morristown
Mid-South Bank & Trust Co.-Murfreesboro
Merchants Bank-Cleveland
First Ntl. Bank of Lawrenceburg-Lawrenceburg
Union Bank-Pulaski
Peoples Bank-Lebanon
Citizens Bank-Savannah

Barnett Banks Inc.-Jacksonville

Barnett Bank-32 separate banks in Florida
Barnett Bank N.A.-Marietta, GA

Sovran Financial Corporaton-Norfolk

Sovran Bank N.A.-Richmond
Sovran Bank/Maryland-Bethesda
Sovran Bank/DC National-Washington
Sovran Bank/Central South-Nashville
Sovran Bank-9 separate banks in Tennessee
Sovran Bank/Delaware-Dover
Sovran Bank/Kentucky-Hopkinsville

Citizens & Southern Corporation-Atlanta

Citizens & Southern Ntl. Bank-Atlanta
Cit. & So. Ntl. Bank of FL-Ft. Lauderdale
Citizens & Southern Bank-Tallahassee
Cit. & So. Ntl. Bank of SC-Charleston

First Wachovia Corporation-Winston-Salem

Wachovia Bank & Trust Co.-Winston-Salem
First Ntl. Bank of Atlanta-Atlanta
First Atlanta Bank N.A.-New Castle, DE

MNC Financial Corporation-Baltimore

Maryland National Bank-Baltimore
American Security Bank N.A.-Washington
Maryland Bank N.A.-Newark, DE

Southeast Banking Corporation-Miami

Southeast Bank-6 separate banks in Florida

Signet Banking Corporation-Richmond

Signet Bank Virginia-Richmond
Signet Bank Maryland-Baltimore
Signet Bank N.A.-Washington

Crestar Financial Corporation-Richmond

Crestar Bank Virginia-Richmond
Crestar Bank Maryland-Bethesda
Crestar Bank N.A.-Washington

First American Corporation-Washington

First American Bank N.A.-Washington
First American Bank of GA-Atlanta
First American Bank of MD-Silver Spring
Eastern Shore Ntl. Bank-Pocomoke City, MD
First American Bank of VA-McLean
Valley Fidelity Bank & Trust-Knoxville
First American Bank of NY-New York City

Dominion Bankshares-Roanoke, VA

Dominion Bank N.A.-Roanoke
Dominion Bank-4 separate banks in VA
Dominion Bank of Maryland-Rockville
Dominion Bank of Washington-Washington
Dominion Bank of Middle TN-Nashville
First Ntl. Bank of Clarksville (TN)
First Ntl. Bank of Dickson-Dickson, TN
First Ntl. Bank of Sparta-Sparta, TN
First Ntl. Bank of Springfield (TN)
Union National Bank-Fayetteville, TN

Florida National Banks-Jacksonville

Florida National Bank-Jacksonville
Kingsley Bank-Orange Park, FL

AmSouth Bancorporation-Birmingham

AmSouth Bank N.A.-Birmingham
AmSouth Bank of Walker County-Jasper
First Ntl. Bank of Birmingham (AL)
First Ntl. Bank of Tuskaloosa (AL)
AmSouth Bank of Florida-Pensacola

Mr. Schlesinger's written statement also contained a copyrighted portion on Preliminary Charlotte Lending Data, SOUTHERN FINANCE PROJECT.

STATEMENT OF HUGH STEVENS, GENERAL COUNSEL TO THE NORTH CAROLINA PRESS ASSOCIATION, BEFORE THE LEGISLATIVE RESEARCH COMMISSION'S COMMITTEE ON INTERSTATE BANKING -- November 16, 1988

Senator Guy, Representative Diamont, Members of the Committee.

Thank you for your invitation to address the Committee concerning the interests and concerns of the North Carolina Press Association with respect to the impact of regional interstate banking on North Carolina's communities, firms and people. I regret that a scheduling conflict prevents my appearing in person this morning. I will appreciate your including the following brief remarks in the record of your proceedings and considering them in your deliberations as you prepare your report and recommendations.

The North Carolina Press Association, Inc. (the "NCPA") is a voluntary membership association chartered as a non-profit corporation under the laws of North Carolina. Its membership includes approximately 55 daily newspapers and 120 non-daily newspapers published throughout North Carolina. The NCPA, like most state newspaper and broadcast associations, has been a strong advocate of public records laws, open meetings laws, and other legislation designed to maximize the ability of the people of North Carolina to obtain the information necessary to make informed decisions about matters of public interest and concern. It is in that vein that these brief remarks are tendered for your consideration.

Just as our democracy depends upon an informed electorate, our capitalistic economy depends upon informed consumers and investors. When it comes to choosing between candidates for public office, our system is predicated on the belief that our citizens can--and will--sift through a welter of campaign ads, position papers, political speeches, pamphlets and posturings in order to ferret out the facts they need to decide which candidates most closely reflect their own philosophies, attitudes, beliefs and

goals. As the recent campaign season dramatically demonstrated, the process often is a bit daunting; separating the wheat from the chaff becomes especially difficult when the quantity of chaff is disproportionately great. Nevertheless, our political system relies heavily on the presumption that the greater the quantum of information available to the voters, the better.

The NCPA believes that this same philosophy should apply in the making of economic and business decisions. As more and better information is made available to consumers, the likelihood increases that they will choose products and services that are appropriate to their needs. That it why we urge you, in formulating your report and recommendations to the General Assembly, to include meaningful reporting and disclosure requirements so that the customers of North Carolina's banks can make informed judgments as to which banks deserve their patronage, and which will best meet their banking needs.

The legislation establishing this committee specifically charges you to study, among other things, "the statewide distribution of credit and its impacts on traditional industries, small businesses, depressed counties, agriculture, internationally traded sectors of the economy, minority and women-owned businesses, and housing markets." Requiring banks to disclose where and to whom their loans are made will help the General Assembly and the general public evaluate the impacts of credit practices and policies. Let me illustrate.

One of the most direct "impacts" of credit distribution occurs when credit simply is not available to particular sectors of the economy, in particular geographic areas, or to particular categories of people. For example, using one of the classifications that you are specifically directed to study, imagine that you are a woman who owns her own business: a dress

shop, perhaps, or a beauty salon--or, as is the case with many NCPA members, a newspaper. You decide that you need a business loan or a line of credit in order to expand your business. How do you make a meaningful choice about which banks to approach? Must you rely solely on advertisements, or word of mouth? Neither of these sources is a reliable guide to which banks willingly make loans to businesses owned by women, and which do not.

One way you might decide would be to obtain copies of public reports in which each bank disclosed information reflective of its credit practices, such as the aggregate amounts of its loans to women-owned businesses. If banks were required to file such reports, and to disclose therein meaningful information about their lending policies, consumers would be more likely to make informed choices.

To use another example from your legislative charge, a farmer who consulted a public report and found that a large interstate bank had made no loans in his county during the past three years might be spared a great deal of wasted time and personal embarrassment by taking his business elsewhere. Or, if he chose to apply to the bank in question, he would at least be armed with knowledge that would be helpful in formulating his negotiating strategy.

With respect to the issue of interstate banking itself, it is only appropriate that banks who have enlisted the General Assembly's assistance in extending their business beyond North Carolina's borders should be required to disclose whether as a result they are making more or less credit available to the citizens and businesses of their home state. In the course of enlisting legislative support for interstate banking, the industry said that entry into these new markets would make North Carolina's banks stronger,

and thus better able to meet the credit demands of North Carolina's individual and corporate citizens. Surely they should be required to disclose information sufficient to permit our citizens to judge whether the supply of bank credit has grown or shrunk, and how it is being distributed.

It is not my purpose today to propose specific reporting or disclosure requirements to this committee. You and the committee staff possess all of the expertise necessary to formulate such details as when and where such reports should be filed and what their formats should be. Obviously, the privacy of individual borrowers and depositors can and should be maintained while requiring the disclosure of the aggregate information required to reflect each bank's lending proclivities.

My purpose is to encourage you to recommend reporting and disclosure requirements that will serve the people of North Carolina. As a practical matter, the vast majority of our citizens must do business with one or more of the banks incorporated in this state. The General Assembly has the power to provide the people with information that will assist them selecting banks whose lending policies, services and business philosophies are most compatible with their personal and business needs. On behalf of the North Carolina Press Association, I urge you to recommend that the General Assembly exercise that power.

HHS27:blh

STATEMENT OF

THE NORTH CAROLINA BANKERS ASSOCIATION

TO

THE STUDY COMMITTEE ON INTERSTATE BANKING

16 NOVEMBER 1988

PREPARED BY
JOHN R. JORDAN, JR.
LEGISLATIVE COUNSEL TO THE ASSOCIATION

I

This statement is offered by the North Carolina Bankers Association on behalf of the 65 commercial banks in North Carolina. The Association appreciates the opportunity to respond to various statements made at the November 16, 1988, meeting of the Study Committee on Interstate Banking.

II

At the meeting of the Interstate Banking Study Committee held on Wednesday, November 16, 1988, in the State Legislative Building, several speakers asserted their feeling that interstate banking had adversely affected the distribution of commercial credit in North Carolina. While not impuning the motives of any of these persons, the North Carolina Bankers Association respectfully submits that such assertions and conclusions are erroneous. Actually, as will be shown below, the evidence before the Study Committee is to the contrary. Indeed, some of the evidence offered by these speakers at the November 16th meeting supports a contrary conclusion as does the information offered by the Commissioner of Banks as well as that of other witnesses who have testified earlier before the Study Committee.

All will agree with the proposed conclusion that "major changes have been occurring in the financial services sector, and will continue to occur". These changes include the deregulation of deposit rate ceilings, the authorization of various new deposit accounts, the broadening of thrift institution powers, the globalization of financial markets, and the expansion of non-bank competition including insurance companies and securities firms into markets traditionally served by commercial banks. The resulting

market changes and the many technological changes being experienced by commercial banking has narrowed bank margins, reduced bank profits, and has forced changes in pricing and marketing practices. There has been a narrowing of spreads and a general increase in risks in banking. Federal Reserve data for the Fifth District for 1987 shows that bank returns declined while write-offs increased. This was true for North Carolina as it was for the nation as a whole. Indeed, the data supplied to the Study Committee by the Commissioner of Banks suggests that North Carolina's largest banks did very well in controlling credit quality even in the face of the national trend.

However, as bank risk increases it is to be expected that banks will respond by attempting to increase equity and by cutting back on marginal loan opportunities. In nearly all of the instances described by the witnesses at the November 16th meeting, the loans requested appear to be marginal and with insufficient returns to justify the added risk. While in earlier times more banks might have been willing to have made such loans, it becomes less likely now with increasing concerns about loan losses and generally less favorable credit conditions and narrower spreads.

It should also be noted that nearly all of the instances cited by the witnesses involved applications for venture capital: new, small, start-up firms which were high risk and do not represent the kind of business traditionally served by commercial banks. For such loans it is not unusual for venture capitalists to require returns of up to 30% to 35%. It is interesting to note that, notwithstanding the risky venture capital character of the loan applications described by one witness, a total of more loan dollars were granted than were denied by North Carolina banks. There can be no stronger evidence of the active efforts of North Carolina banks to meet all of the credit needs of this state.

This Study Committee does not have to be reminded that commercial banks are the most strenuously regulated and restricted of all financial and lending institutions. Commercial banks must compete in the market place with savings and loan associations, credit unions, mortgage bankers, savings banks, life insurance company lenders, securities dealers, non-bank institutions and others, none of which operate under restrictions anywhere near so severe as those imposed on commercial banks. As a consequence, commercial banks are not growing as fast as the economy as a whole and continue to lose market share to other financial services companies. The Federal Deposit Insurance Corporation Quarterly recently released the information that commercial banks' share of the commercial and industrial loan market shrank in the second quarter of 1988 to 32%. Such loans made up 40% of banks' loan portfolios at year end 1982 and was in excess of 50% not too many years earlier.

No evidence has been presented to indicate that interstate banking has caused a movement of money out of North Carolina. To the contrary, interstate banking has brought money into North Carolina to the benefit of its citizens. When one looks at the proportion of loans funded with deposits raised locally, community banks are seen to raise about 95% of their funds in local markets while deploying only about 57% of their assets in local markets. On the other hand, regional banks raise only about 61% of their funds locally while committing 54% of their assets to local markets. Money center institutions such as NCNB, First Union and Wachovia raise about 26% of their funds in local markets and deploy in excess of 28% of their assets in local markets. Put another way, the ratio of local-uses to local-sources of funds is 60% for community banks, 90% for regional banks and 110% for money center banks.

A point was raised as to the time factor in loan processing. This is a traditional problem which the banks themselves constantly address. It has nothing to do with interstate banking. Hopefully, the advent of the computer era will bring a workable solution. North Carolina banks have been addressing the situation on their own for some time now. Wachovia, for example, has recently instituted a new time saving technique for processing loan applications. Other North Carolina Banks undoubtedly will do the same.

With respect to office closings, the Committee's attention was directed to a news story under date of 15 November 1988 as to plans by certain of the major North Carolina banks to close some unprofitable branches. First, it should be noted that there has been a constant increase in the total number of main offices and branches in North Carolina from 1979 to date. In fact, according to figures supplied by the Commissioner of Banks there was a 10% increase in the number of bank locations between 1983 and 1988. According to the Commissioner, the number of banking offices increased from 1,865 in 1982 to 1,966 in 1986, an increase of 101 offices. In total, the number of offices of banks and thrifts increased from 2,867 in 1982 to 3,030 in 1986. Thus, it does not appear that interstate banking has in any way impacted on the availability of access to banking services in North Carolina.

However, with the acceptance of automated tellers by the public, some branch offices are not now needed. Actually, some North Carolina banks have deployed ATMs more widely than brick and mortar branches thus increasing customer convenience. NCNB quite recently has begun an experiment with supermarket branches as a way to provide customer convenience. The highly competitive climate in which commercial banks now find themselves dictates a sustained effort for market share but at the same time the rising cost of doing business and the burden of restrictions not borne by their competition

will not permit the operation of unprofitable branches. In fact, the bank regulatory authorities would not long permit the operation of an unprofitable branch. The history of commercial banking in North Carolina shows that the citizens of this state need never fear that they will be denied safe and convenient banking services.

Finally, the Study Committee's attention is directed to the efforts instituted by the banking industry itself to provide low cost banking for lower-income customers. North Carolina's largest banks already offer low-cost checking accounts. Banks that do not have them are studying the matter. The banking industry does not wish to see any citizen of this state going to a check cashing service in the belief that such is more economical than the use of a commercial bank. From an overall perspective such is not true. Low cost accounts do not of themselves generate profits for banks. They lose money because the cost of handling the paper work exceeds the amount the bank can earn on the small amount a low-income customer maintains in his balance. However, the bank hopes to develop a long-term relationship which will be beneficial for both the customer and the bank. In any event, this is another example of the commercial banks of North Carolina moving on their own to meet a need notwithstanding its questionable impact on profit.

III

In conclusion, the North Carolina Banking Association commends the Interstate Banking Study Committee for its diligence in examining the questions which have been raised in connection with the impact of interstate banking. Having done so, you will find no evidence that it has adversely affected credit in North Carolina or that it has adversely affected the

banking public in any way. On the other hand, you will find that it has enhanced the availability of credit in North Carolina and that it promises to do even more so in the future. Certainly such a salutary result lives up to the expectations expressed to the General Assembly at the time it made interstate banking available to North Carolina.

The North Carolina Bankers Association agrees that no additional barriers should be imposed on commercial banking unless careful and detailed study reveals a compelling need for such. Should the General Assembly elect to study this matter further, the North Carolina Bankers Association and its full membership pledge full cooperation.

NCNB CORPORATION'S ACQUISITION
OF
NCNB TEXAS NATIONAL BANK

On July 29, 1988, the Federal Deposit Insurance Corporation (FDIC) approved NCNB Corporation's proposal to acquire control of NCNB Texas National Bank, a newly established "bridge bank" created by the FDIC to acquire certain assets and assume the deposit and certain other general liabilities of the Texas bank subsidiaries of First RepublicBank Corporation, Dallas, Texas.

NCNB Corporation entered into an interim management agreement with the FDIC and NCNB Texas. Under this agreement NCNB Corporation is managing NCNB Texas until a definitive Assistance Agreement is entered into and an initial investment in the capital of the bank is made. Under the interim agreement with the FDIC, NCNB Corporation will acquire 100% of the voting shares of NCNB Texas, representing 20% of the Texas bank's total equity on the date of the execution of a definitive Assistance Agreement between NCNB Corporation and the FDIC. It is contemplated that this agreement will be executed shortly. At that time, the FDIC will acquire nonvoting stock of NCNB Texas, representing 80% of the bank's total equity and NCNB will receive an exclusive, nontransferable option, exercisable at any time during the next five years, to purchase the FDIC's 80% interest. Simply stated, with the definitive agreement

NCNB Corporation acquires 20% of the equity with an option to purchase the remaining 80% over five years.

On September 29, 1988 NCNB Corporation raised $250MM in new capital with the sale of convertible preferred stock. Of this amount $210MM will be used to purchase the initial 20% equity in NCNB Texas National Bank. Additional purchases of stock in NCNB Texas National Bank will be made in conjunction with the raising of new capital.

The sale of NCNB Texas to NCNB Corporation was conducted by the FDIC pursuant to the emergency interstate acquisition powers of Section 116 of the Garn-St Germain Depository Institution Act of 1982, as amended [12 U.S.C. 1823(f)]. As a result, the provisions of the Douglas Amendment [Section 3(d) of the Bank Holding Company Act] and any relevant state law (including the 80%-20% deposit requirements of the North Carolina and other southeastern states' Regional Reciprocal Banking Acts), were preempted. Therefore, these laws do not inhibit NCNB Corporation's acquisition of NCNB Texas. Further, NCNB Corporation is not required, by reason of the acquisition of NCNB Texas, to divest any of its subsidiary banks and is not prevented from acquiring any other bank or bank holding company in North Carolina or any other state which otherwise authorizes such acquisitions.

The recent action of the North Carolina General Assembly of admitting Texas to the North Carolina Interstate Banking Region was not necessary for NCNB Corporation to acquire control of NCNB Texas. Rather, as previously indicated, the provisions of Section 116 of the Garn-St Germain Depository Institution Act of 1982, as amended, preempt all otherwise relevant state laws and provided NCNB Corporation the necessary authority.

North Carolina
Department of Commerce

James G. Martin, Governor | Claude E. Pope, Secretary

M E M O R A N D U M

TO: Terry Sullivan
Director of the Research Division
Legislative Services Office

FROM: L. McNeil Chestnut
General Counsel

DATE: November 30, 1988

RE: Interstate Banking Study Committee

Following our conversation this morning please let me advise you of the following:

1. We concur in the revised draft of the proposed changes we submitted to the Interstate Banking Study Committee regarding:

   a. Confidentiality of Records at G.S 53-99(b)(1)(4) and (4a).

   b. Publication of an Interstate Application at G.S 53-211(d) within 30 days of receiving a complete application.

   c. Registration of a Bank Holding Company at G.S. 53-227 (on which there were no changes to our draft).

2. You and Commissioner Graham have discussed repeal of the anti-commission Rule at G.S. 53-6. With regard to this repeal, we enclose a proposed revision. On the following page I have provided you with a basis for this repeal with citation to other states for your information. We anticipate defining the terms and conditions under which commissions may be paid by either a policy position or appropriate regulation.

Lastly, we want the Interstate Banking Study Committee to at least be aware that we will propose full interstate banking in North Carolina. We are continuing to research this issue but will give you a proposed draft as soon as the same is available

Attachment

Office of Commissioner of Banks • William T. Graham, Commissioner
430 North Salisbury Street • P. O. Box 29512 • Raleigh, North Carolina 27626-0512 • Telephone 919-733-3016

FINDINGS TO SUPPORT REPEAL OF THE ANTI-COMMISSION RULE IN NORTH CAROLINA BANKING LAWS AT G.S. 53-6

Currently, North Carolina G.S. 53-6 prohibits a bank from paying commissions on the sale of its organizational stock. This prohibition is seen as an impediment to the formation of community banks.

As community banks concentrate the delivery of their banking services and products in the communities where they are organized, every reasonable step should be taken to foster their growth and development. One such step would be to repeal the current statutory prohibition on the payment of commissions to sell the organizational stock of a bank.

In a survey by the North Carolina Commissioner of Banks on the authority for payment of commission on organizational stock 43 states responded. Of those responding 22 states expressly allowed for commissions and another six (for a total of 28) took the position that since their statutes were silent on the subject, commissions on the sale of organizational stock are permissible. Fourteen states specifically prohibited these commissions and one, which had a silent statute, did not take a position and advised that they had had no experience on the matter.

The proposed revision of G.S. 53-6, repealing the anti-commission provision, submitted by the Commissioner of Banks would therefore be consistent with a majority of the states.

PROPOSED DRAFT
TO THE NORTH CAROLINA BANKING LAWS
ELIMINATING THE ANTI-COMMISSION'S RULE AT G.S. 53-6

G.S. 53-6 is hereby amended to read as follows: The capital stock of every bank shall be fully paid in, in cash, before it shall be authorized by the Commissioner of Banks to commence business and the full payment in cash of the capital stock shall be certified to the Commissioner of Banks under oath by the president, cashier, or secretary of the said bank.

APPENDIX V

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

S/H D

interbank1ra2
THIS IS A DRAFT 2-DEC-88 15:36:30

Short Title: Interstate Banking Confidentiality and Publication (Public)

Sponsors:

Referred to:

A BILL TO BE ENTITLED

AN ACT TO REQUIRE CONFIDENTIALITY FOR INTERSTATE BANK ACQUISITION RECORDS AND PUBLICATION OF NOTICE OF APPLICATION OF INTERSTATE BANKING ACQUISITION.

The General Assembly of North Carolina enacts:

Section 1. G.S. 53-99 reads as rewritten:

"**§53-99. Official records.** (a) The Commissioner of Banks shall keep a record in his office of his official acts. rulings. and transactions which. except as hereinafter provided. shall be open to inspection. examination and copying by any person.

(b) Notwithstanding any laws to the contrary. the following records of the Commissioner of Banks shall be confidential and shall not be disclosed or be subject to public inspection:

(1) Records compiled during or in connection with an examination. audit or investigation of any bank. banking office . bank holding company or its nonbank

subsidiary. or trust department ~~operating~~ which operates or has applied to operate under the provisions of this Chapter:

(2) Records containing information compiled in preparation or anticipation of litigation. examination. audit or investigation;

(3) Records containing the names of any borrowers from a bank or revealing the collateral given by any such borrower: Provided, however, that every report of insider transactions made by a bank which report is required to be filed with the appropriate State or federal regulatory agency by either State or federal statute or regulation shall be filed with the Commissioner of Banks in a form prescribed by him and shall be open to inspection. examination and copying by any person;

(4) Records prepared during or as a result of an examination. audit or investigation of any bank. bank affiliate. bank holding company or its nonbank subsidiary. data service center or banking practice by an agency of the United States. or jointly by such agency and the Commissioner of Banks. if such records would be confidential under federal law or regulation;

(4a) Records prepared during or as a result of an examination. audit or investigation of any bank. bank affiliate. bank holding company or its nonbank subsidiary.data service center or banking practice by a regulatory agency of jurisdiction of the region defined in G.S.53-210(11) if these records would be confidential under that jurisdiction's law or regulation;

(5) Records of information and reports submitted by banks to federal regulatory agencies. if such records would be confidential under federal law or regulation;

(6) Records of complaints from the public received by the banking department and concerning banks under its supervision if such complaints would or could result in an investigation;

(7) Records of examinations and investigations of consumer finance licensees;

(8) Records of pre-need burial contracts maintained pursuant to Article 7A of Chapter 65 of the General Statutes including investigations of such contracts and related credit inquiries;

(9) Any letters. reports. memoranda. recordings. charts. or other documents which would disclose any information set forth in any of the confidential records referred to in subdivisions (1) through (8)."

Sec. 2. G.S. 53-211 reads as rewritten:

"**§ 53-211. Acquisitions by regional bank holding companies.** (a) A regional bank holding company that does not have a North Carolina bank subsidiary (other than a North Carolina bank subsidiary that was acquired either pursuant to Section 116 or Section 123 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m). 1823(f)) or in the regular course of securing or collecting a debt previously contracted in good faith. as provided in Section 3(a) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1842(a)) may acquire a North Carolina bank holding company or a North Carolina bank with the approval of the Commissioner. The regional bank holding company shall submit to the Commissioner an application for approval of such acquisition. which application shall be approved only if:

(1) The Commissioner determines that the laws of the state in which the regional bank holding company making the acquisition has its principal place of business permit North Carolina bank holding companies to acquire banks and bank holding companies in that state:

(2) The Commissioner determines that the laws of the state in which the regional bank holding company making the acquisition has its principal place of business permit such regional bank holding company to be acquired by the North Carolina bank holding company or North Carolina bank sought to be acquired. For the purposes of this subsection. a North Carolina bank shall be treated as if it were a North Carolina bank holding company:

(3) The Commissioner determines either that the North Carolina bank sought to be acquired has been in existence and continuously operating for more than five years or that all of the bank subsidiaries of the North Carolina bank holding company sought to be acquired have been in existence and continuously operating for more than five years: Provided. that the Commissioner may approve the acquisition by a regional bank holding company of all or substantially all of the shares of a bank organized solely for the purpose of facilitating the acquisition of a bank that has been in existence and continuously operating as a bank for more than five years; and

(4) The Commissioner makes the acquisition subject to any conditions, restrictions, requirements or other limitations that would apply to the acquisition by a North Carolina bank holding company of a bank or bank holding company in the state where the regional bank holding company making the acquisition has its principal place of business but that would not apply to the acquisition of a bank or bank holding company in such state by a bank holding company all the bank subsidiaries of which are located in that state.

(b) A regional bank holding company that has a North Carolina bank subsidiary (other than a North Carolina bank subsidiary that was acquired either pursuant to Section 116 or Section 123 of the Garn-St. Germain Depository Institutions Act of 1982 (12 U.S.C. 1730a(m), 1823 (f) or in the regular course of securing or collecting a debt previously contracted in good faith, as provided in Section 3(a) of the Bank Holding Company Act of 1956 as amended (12 U.S.C. 1842(a)) may acquire any North Carolina bank or North Carolina bank holding company with the approval of the Commissioner. The regional bank holding company shall submit to the Commissioner an application for approval of such acquisition, which application shall be approved only if the Commissioner makes the acquisition subject to any conditions, restrictions, requirements or other limitations that would apply to the acquisition by a North Carolina bank holding company of a bank or bank holding company in the State where the regional bank holding company making the acquisition has its principal place of business but that would not apply to the acquisition of a bank or bank holding company in such state by a bank holding company all the bank subsidiaries of which are located in that state.

(c) The Commissioner shall rule on any application submitted under this section not later than 90 days following the date of submission of a complete application. If the Commissioner fails to rule on the application within the requisite 90-day period, the failure to rule shall be deemed a final decision of the Commissioner approving the application.

(d) The Commissioner, within 30 days of receiving the complete application for acquisition, shall publish notice of the intent of a regional bank holding company to acquire a North Carolina bank or North Carolina bank holding company under subsection (a) or (b) of this section. The notice shall be published in newspapers

serving the communities in which the principal offices of the North Carolina bank or North Carolina bank holding company and of the regional bank holding company are located. Notwithstanding any other provision of this section, the application for acquisition shall not be approved until the requirement for publication has been met."

Sec 3. This act is effective upon ratification.

APPENDIX W

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

S\H **D**

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THIS IS A DRAFT 2-DEC-88 15:37:15

Short Title: Registration of subsidiaries of BHC's (Public)

Sponsors:

Referred to:

A BILL TO BE ENTITLED

AN ACT TO REQUIRE THE REGISTRATION UNDER THE NORTH CAROLINA BANK HOLDING COMPANY ACT OF BANK HOLDING COMPANIES CONTROLLING DIRECTLY OR INDIRECTLY NONBANK SUBSIDIARIES OPERATING IN NORTH CAROLINA.

The General Assembly of North Carolina enacts:

Section 1. G.S. 53-227 reads as rewritten:

"**§ 53-227. Registration of bank holding companies.** Every bank holding company, not later than July 1, 1985, or within 180 days after becoming a bank holding company controlling a North Carolina federally or State-chartered bank or banks, or within 180 days after acquiring control, <u>directly or indirectly,</u> over a nonbank subsidiary or subsidiaries having offices located in this State shall register with the Commissioner on forms approved by the Commissioner."

Sec. 2. This act is effective upon ratification.

APPENDIX X

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

S or H D

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THIS IS A DRAFT 2-DEC-88 14:16:17

Short Title: Allow commissions on initial bank stock (Public)

Sponsors:

Referred to:

A BILL TO BE ENTITLED

AN ACT TO ALLOW SALES COMMISSIONS ON INITIAL BANK STOCK OFFERINGS

The General Assembly of North Carolina enacts:

Section 1.

"§ 53-6. **Payment of capital stock.** The capital stock of every bank shall be fully paid in, in cash, before it shall be authorized by the Commissioner of Banks to commence business and the full payment in cash of the capital stock shall be certified to the Commissioner of Banks under oath by the president ~~and~~ , cashier, or secretary of the said bank. ~~Provided, that the stock sold by any bank in process of organization, or for an increase of the capital stock, shall be accounted for to the bank in the full amount paid for the same. No commission or fee shall be paid to any person, association, or corporation for selling such stock. The Commissioner of Banks shall refuse authority to commence business to any bank if commissions or fees have been paid, or have been contracted to be paid by it, or by anyone in its behalf, to any~~

~~person, association, or corporation for securing subscriptions for or selling stock in such bank.~~"

Sec.2. This act is effective upon ratification.